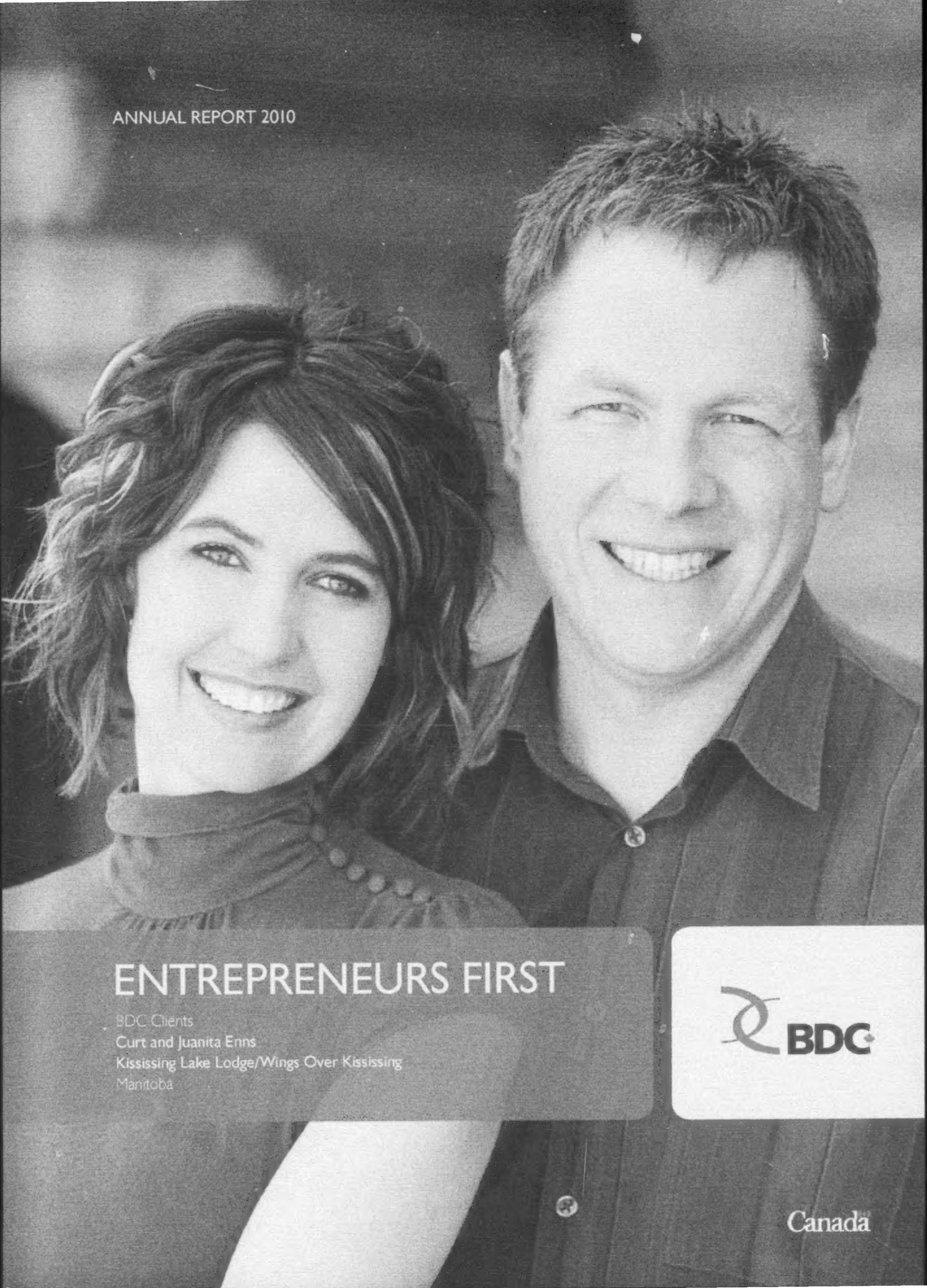
ANNUAL REPORT 2010



ENTREPRENEURS FIRST

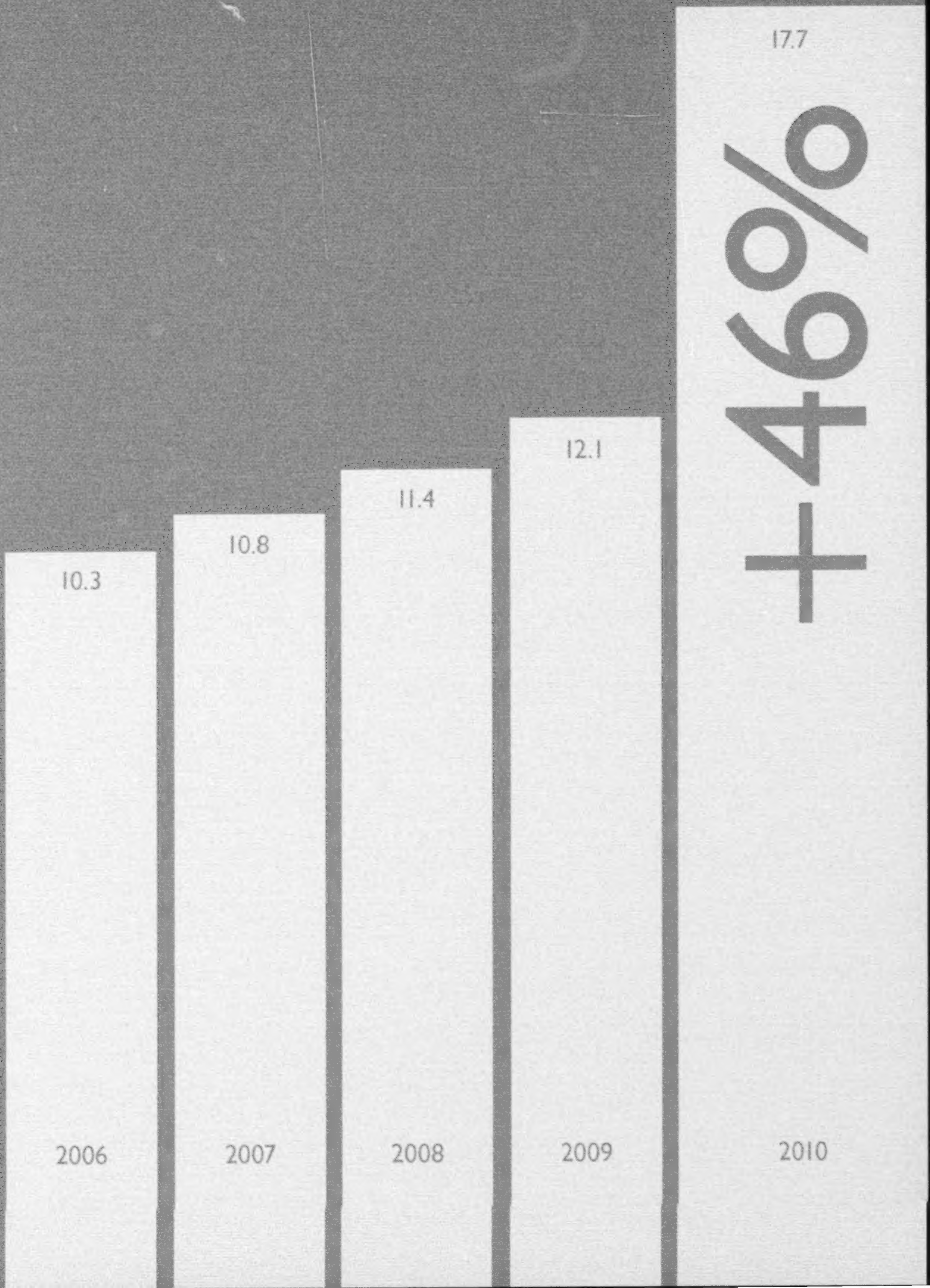
BDC Clients
Curt and Juanita Enns
Kississing Lake Lodge/Wings Over Kississing
Manitoba

BDC

Canada

Total Assets – BDC

As at March 31 ($ in billions)



WHEN THE RECESSION STRUCK,

WE
HELPED
MORE.

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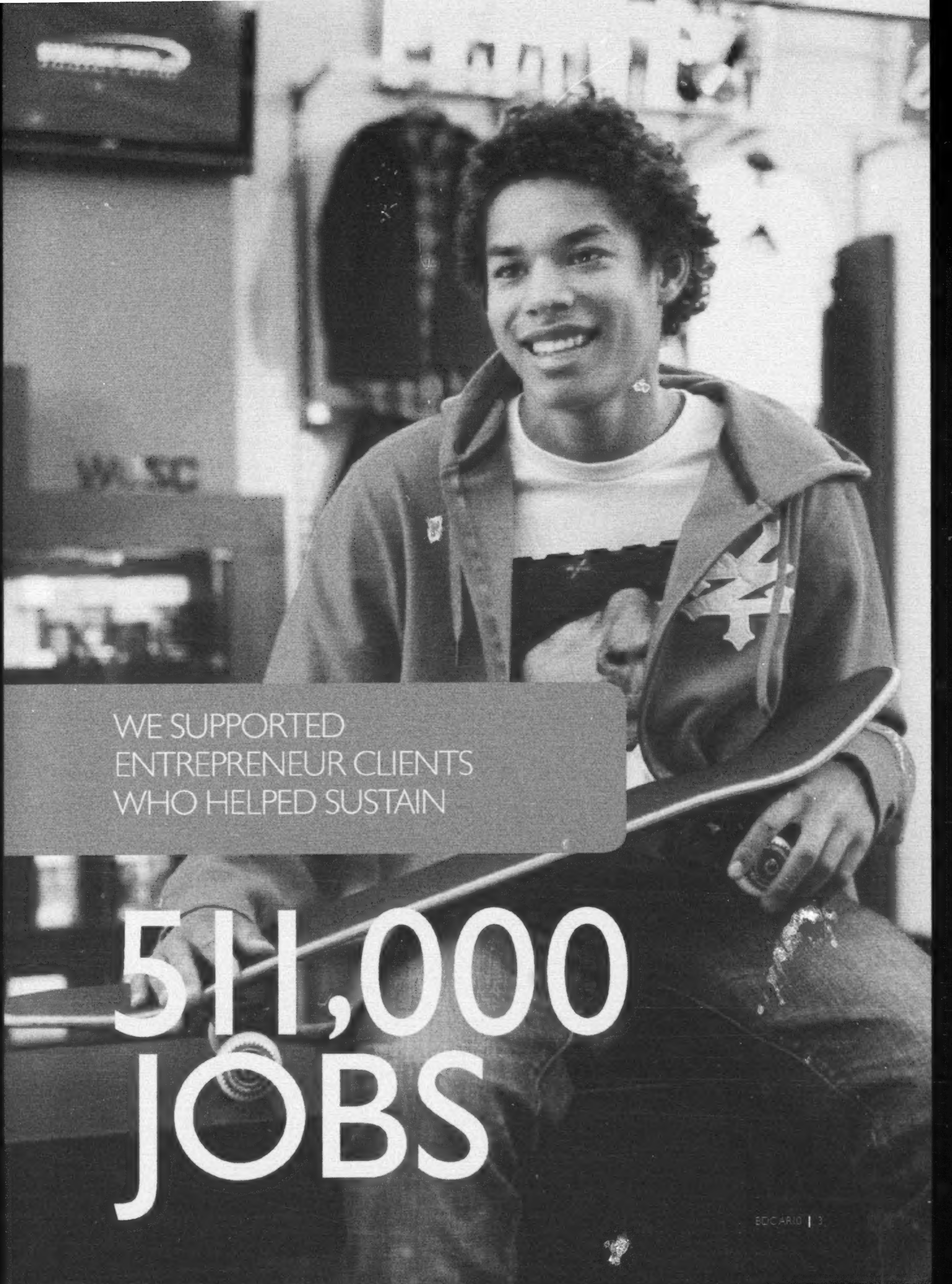
INDEPENDENT

"I have skateboard shops in Montreal and Vancouver, plus a busy online store. Our 45 employees have the knowledge and power to make my company better. BDC is also a tremendous partner. They've helped me with timely financing and outstanding business coaching. I wouldn't be where I am today without their support."

Alexandre Bastide
Owner

UNDERWORLD SKATEBOARD
Montreal, Quebec
Vancouver, British Columbia



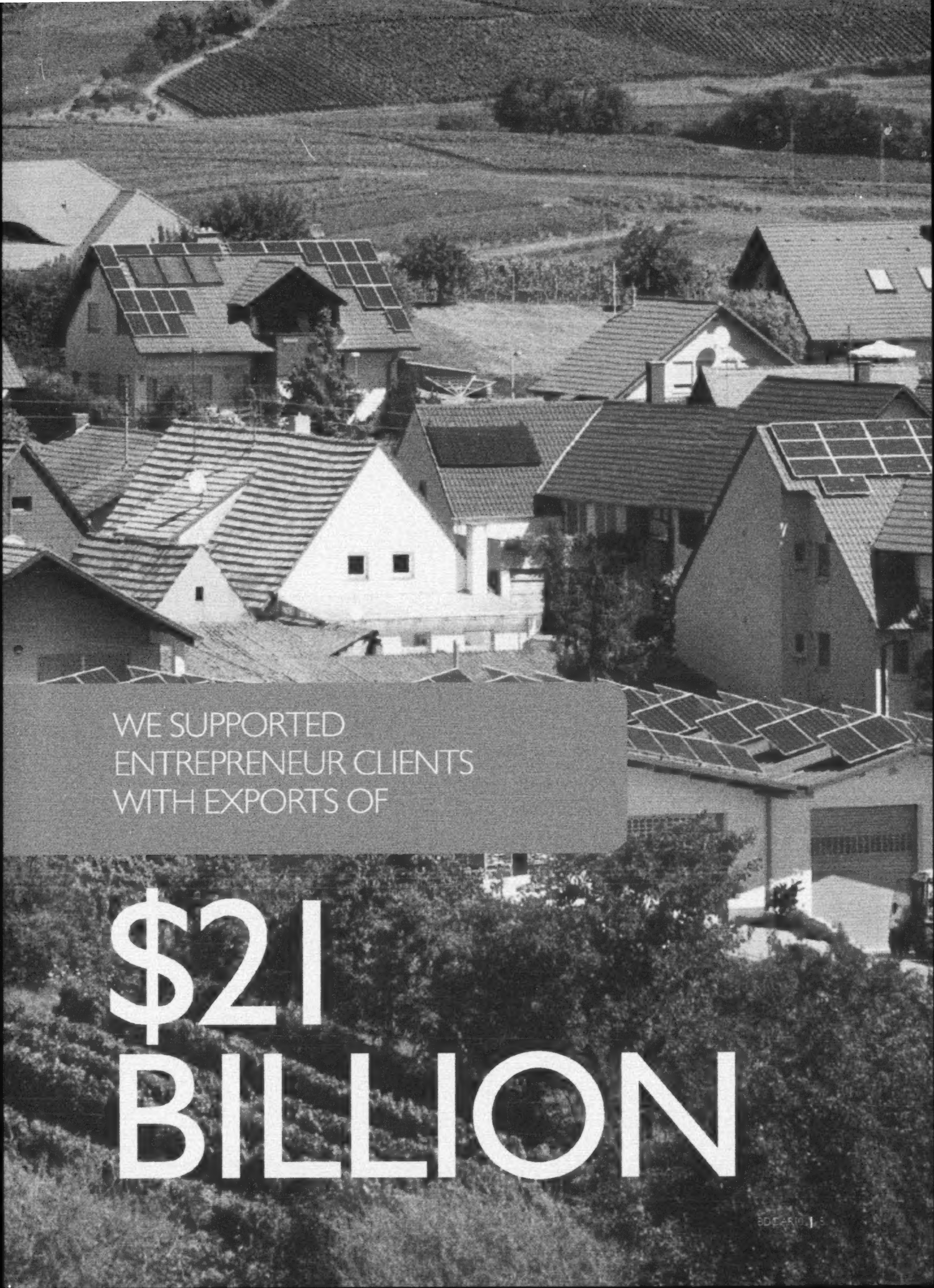
WE SUPPORTED
ENTREPRENEUR CLIENTS
WHO HELPED SUSTAIN

511,000
JOBS

"We export solar panels to 17 countries where we are competing and winning against suppliers from China, India and other countries. In the last two years, our sales have grown six-fold, and we are tripling the size of our plant. BDC was there for us during the recession. That's made a big difference."

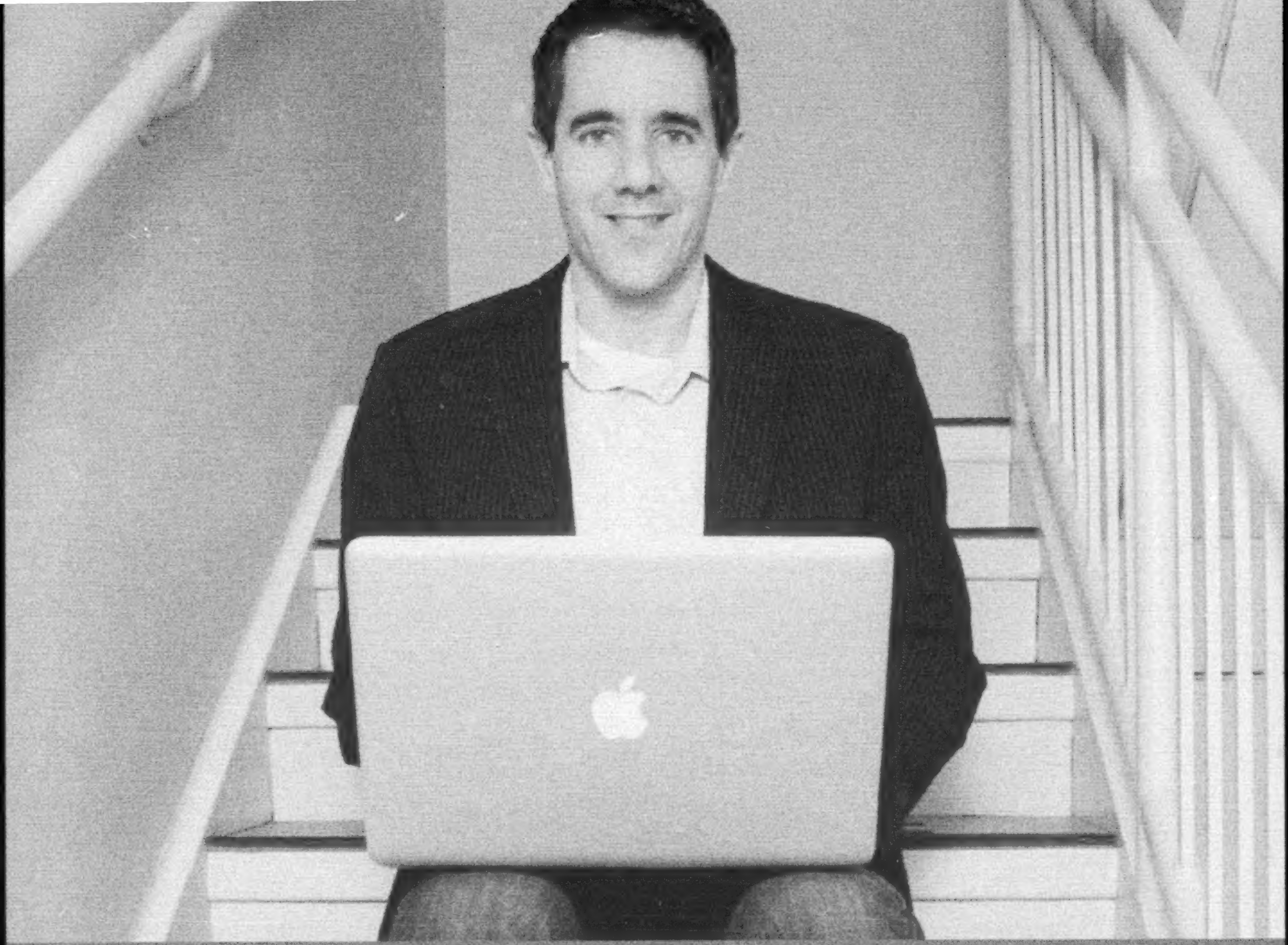
Ajoy Das
President

CENTENNIAL SOLAR INC.
Montreal, Quebec



WE SUPPORTED ENTREPRENEUR CLIENTS WITH EXPORTS OF

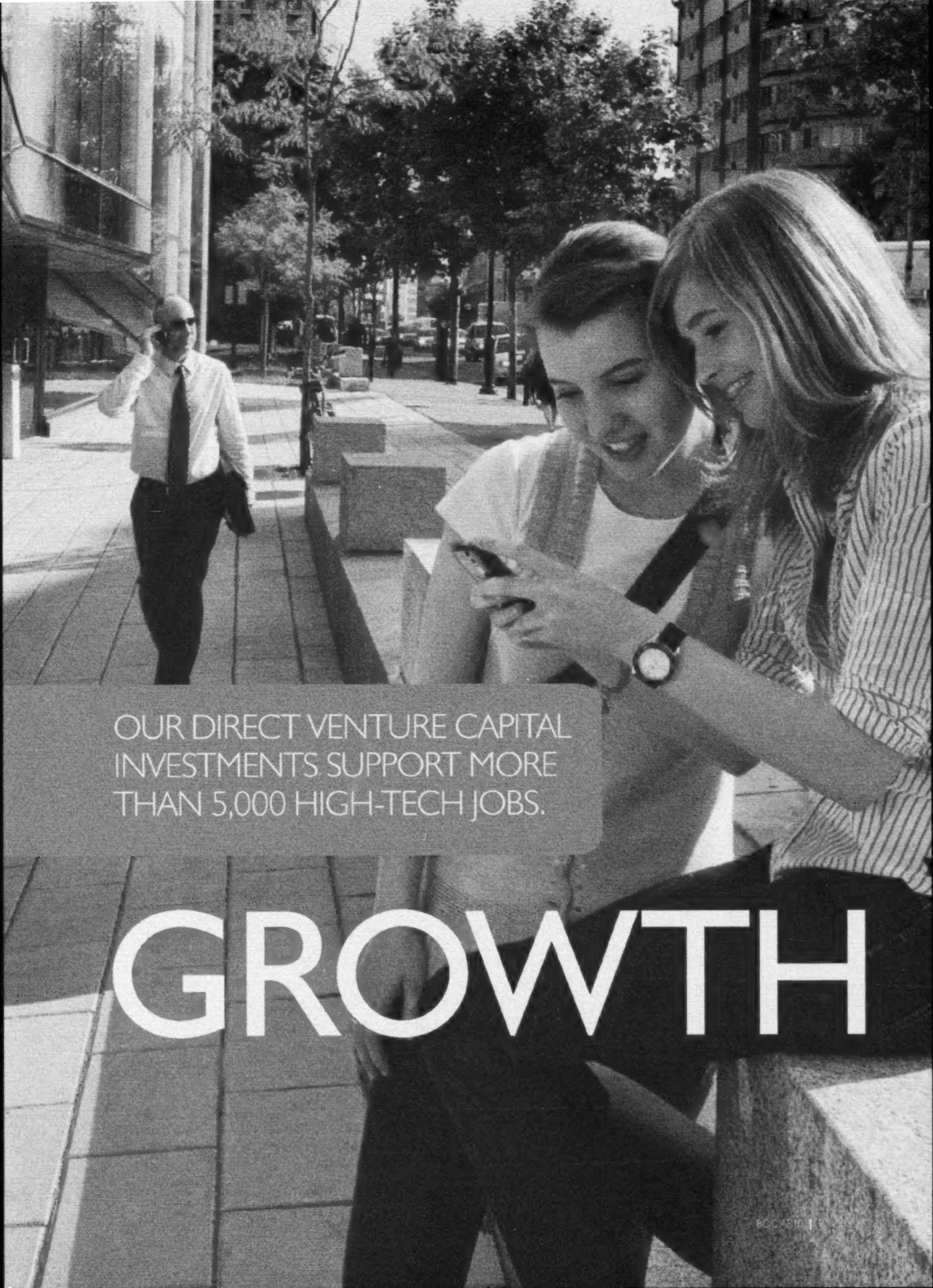
$21 BILLION



"Our technology tracks what is being said about companies on the Internet in blogs, forums and social networking sites like Twitter and Facebook. Our growth is exponential and we now have more than 1,500 clients, including Microsoft, Comcast and Dell. BDC has been a critical ally for Radian6, contributing capital and expertise to help our company grow."

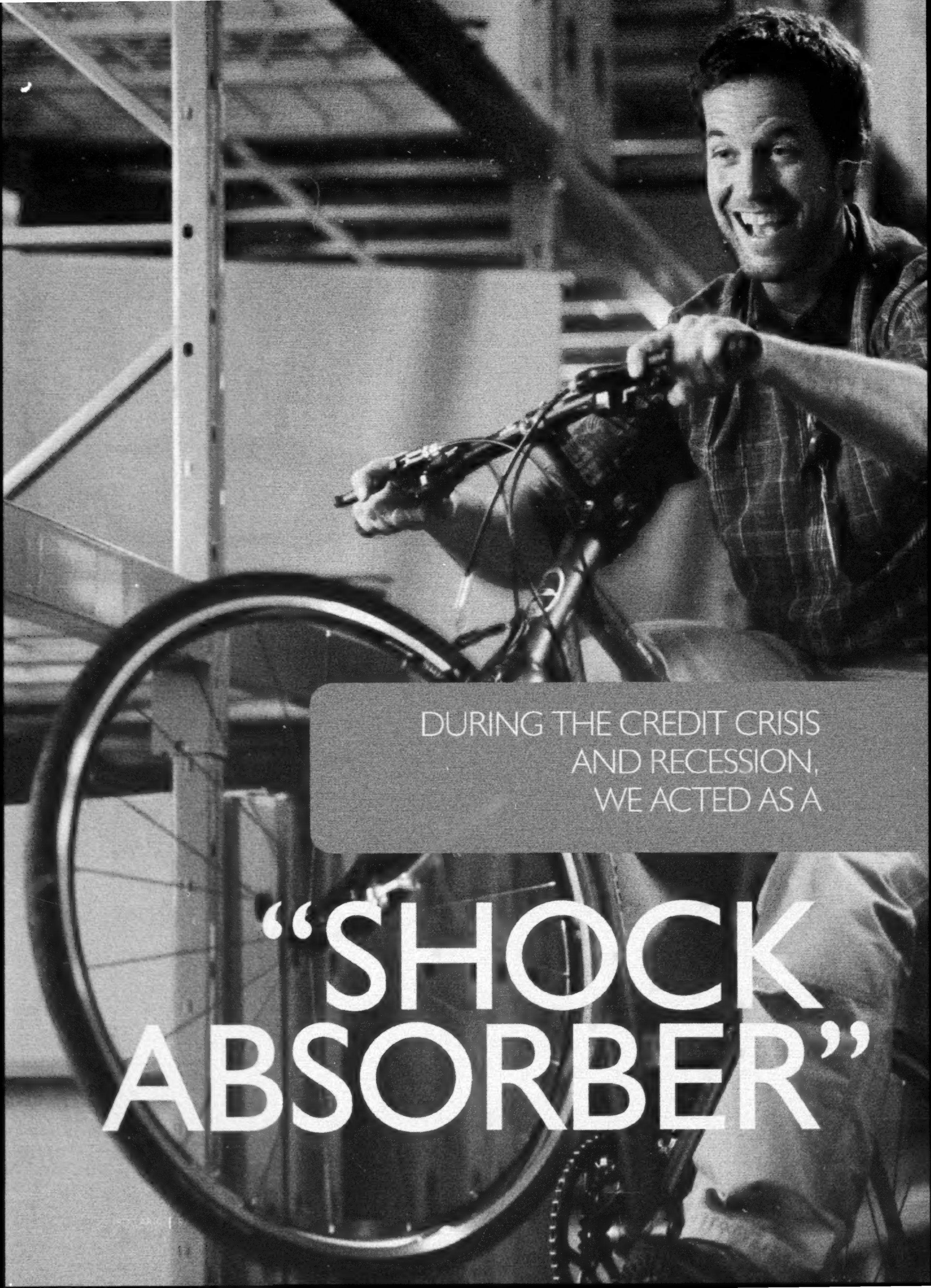
Marcel LeBrun
Chief executive officer

RADIAN6
Fredericton, New Brunswick



OUR DIRECT VENTURE CAPITAL INVESTMENTS SUPPORT MORE THAN 5,000 HIGH-TECH JOBS.

GROWTH



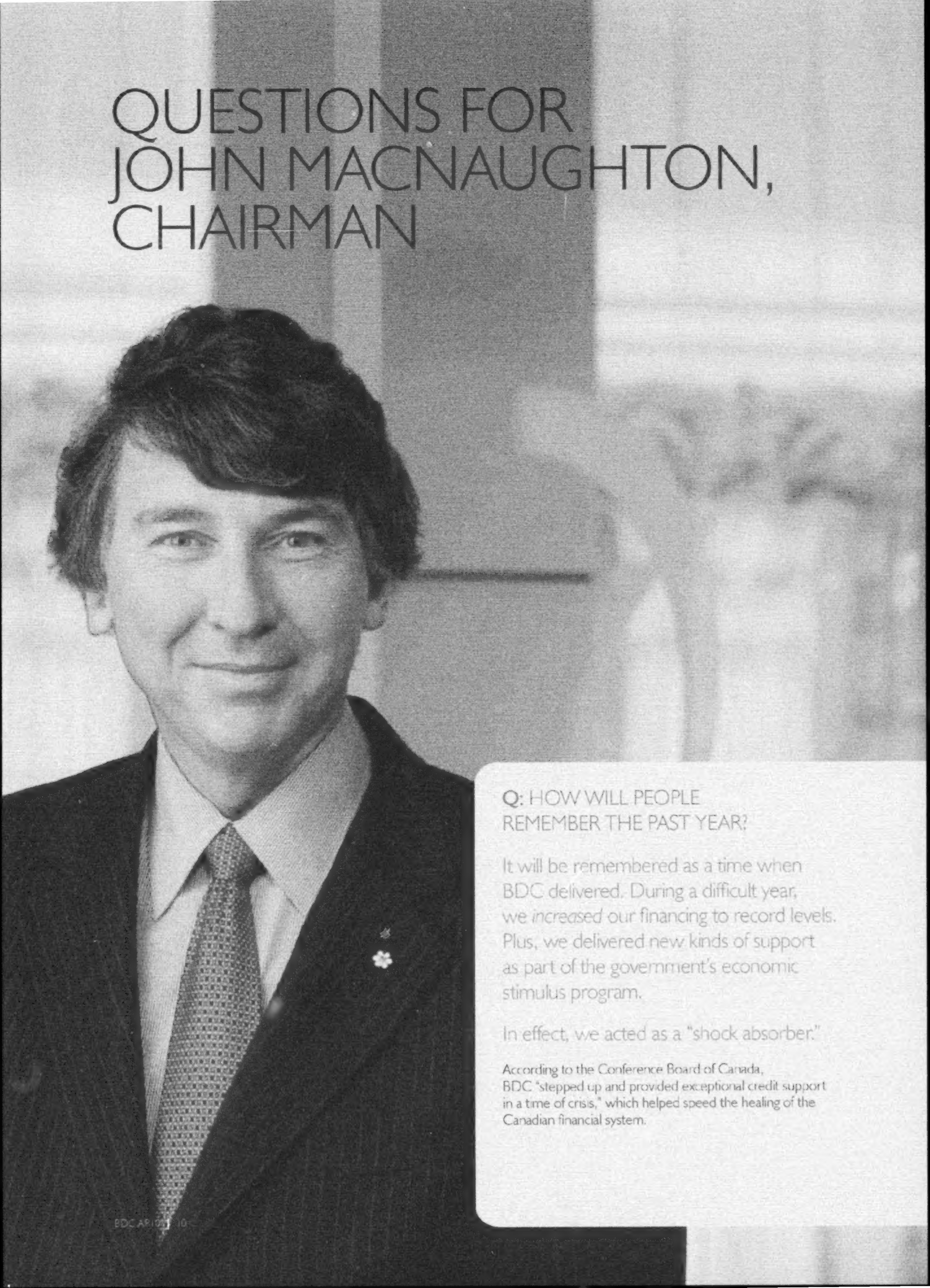
DURING THE CREDIT CRISIS
AND RECESSION,
WE ACTED AS A

"SHOCK ABSORBER"

NOW WE LOOK FORWARD
TO ACCOMPANYING OUR 29,000 CLIENTS
AS THEY GROW THEIR COMPANIES.

WE ARE BDC.
THE BUSINESS
DEVELOPMENT
BANK OF CANADA.

QUESTIONS FOR JOHN MACNAUGHTON, CHAIRMAN



Q: HOW WILL PEOPLE REMEMBER THE PAST YEAR?

It will be remembered as a time when BDC delivered. During a difficult year, we *increased* our financing to record levels. Plus, we delivered new kinds of support as part of the government's economic stimulus program.

In effect, we acted as a "shock absorber."

According to the Conference Board of Canada, BDC "stepped up and provided exceptional credit support in a time of crisis," which helped speed the healing of the Canadian financial system.

Q: HOW, SPECIFICALLY, DID BDC SUPPORT ENTREPRENEURS?

To begin with, it did more of what it usually does. It lent more money to creditworthy businesses than at any time during its history: $4.4 billion, an increase of 53% over last year. It started 2,504 consulting mandates and, despite the stubbornly difficult environment for venture capital, authorized $85 million in investments.

Secondly, it supported clients in new ways. At the request of the government, it participated in the Business Credit Availability Program, a collaborative effort with Export Development Canada and private sector banks to provide together an incremental $5 billion in financing. It also created and managed the Canadian Secured Credit Facility, which promoted investor confidence and participation in the Canadian term asset-backed securities market.

The sum of these efforts is impressive: BDC's total assets grew by 46%.

Q: WHAT ROLE DID THE BOARD PLAY DURING THE CREDIT CRISIS AND RECESSION?

Recall that our role is to oversee BDC's activities and hold management accountable. That BDC was able to successfully meet greater and new demands is testimony to the strength of its governance.

I'd like to thank our shareholder for its continued support, and my fellow board members for their professionalism, diligence and extra effort. We met 16 times as a board this past year, double the usual frequency. We also held a total of 63 committee meetings.

I offer a special thanks to Christiane Bergevin for her years of contribution and dedication, and a welcome to our new board colleague, Roger Demers.

Q: HOW HAS BDC ITSELF WEATHERED THE RECESSION?

Quite well. Overall, it was a profitable year. This strength allowed us to support entrepreneurs in all sectors.

Q: WHAT ARE THE CHALLENGES AHEAD?

For entrepreneurs, the challenge is to plan and act strategically to adapt to the post-recession marketplace. For most, this should mean investing in innovation and productivity, plus searching for overseas markets to grow their businesses.

Q: ARE YOU READY FOR THE UPCOMING REVIEW OF BDC BY PARLIAMENT?

Yes. The experience of the past year will be highly relevant to members of Parliament, who will soon start the review of the *Business Development Bank of Canada Act*. The credit crisis and recession tested both the rationale for BDC's existence and its ability to deliver. I believe BDC passed both tests.

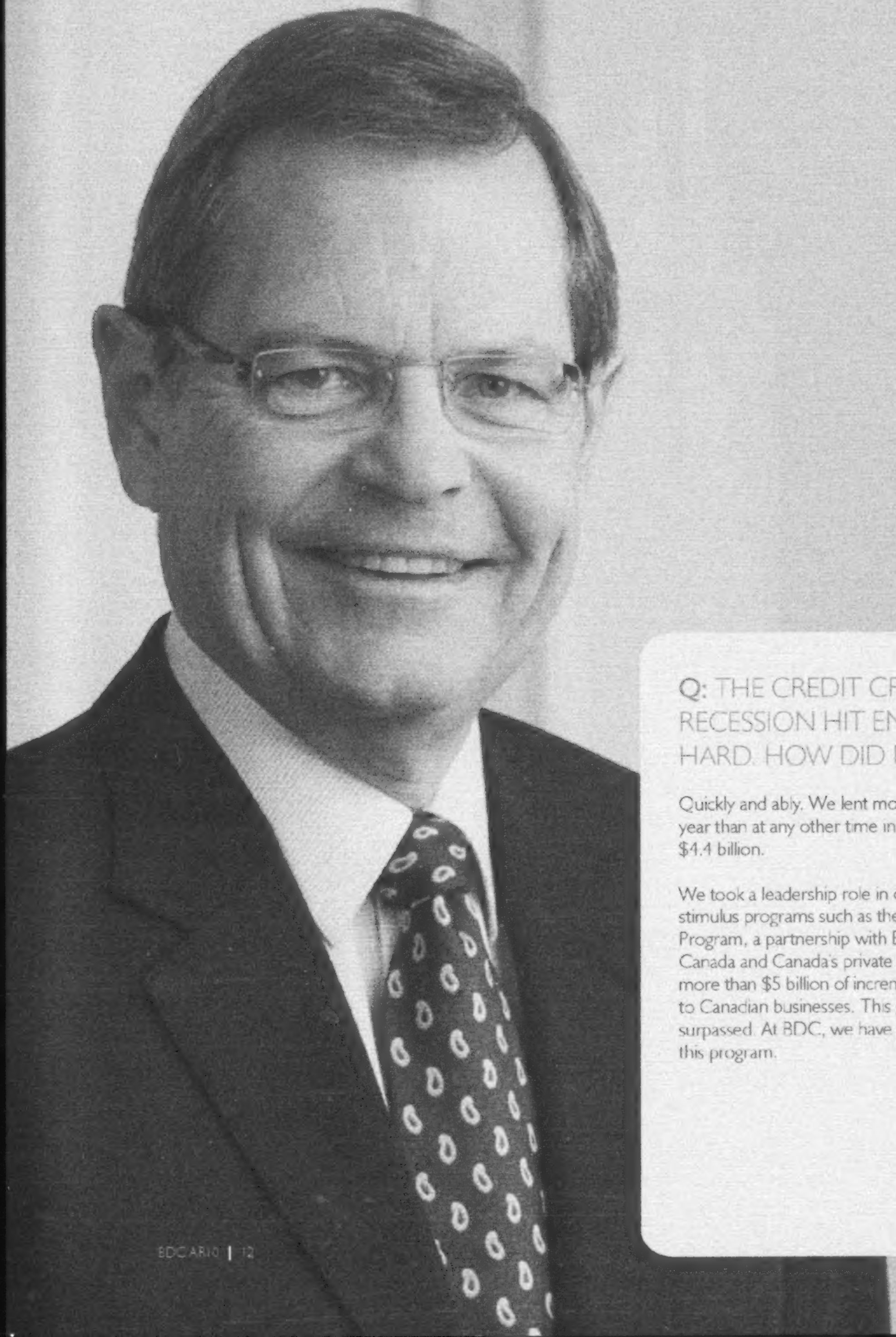
This legislative review is a regular opportunity to assess the past and plan for the future. We look forward to working with Parliament and discussing BDC's future role.

Q: SO YOU ARE CONFIDENT ABOUT THE FUTURE?

Yes, and pleased about the continued presence of Jean-René Halde as president and chief executive officer; he has been reappointed by the federal government to another five-year term. Jean-René had been a CEO for many years in the private sector, which is excellent experience for BDC. He is a strong and able leader.

John A. MacNaughton
Chairman

QUESTIONS FOR JEAN-RENÉ HALDE, PRESIDENT AND C.E.O.



Q: THE CREDIT CRISIS AND RECESSION HIT ENTREPRENEURS HARD. HOW DID BDC RESPOND?

Quickly and ably. We lent more money in the last year than at any other time in our 65-year history: $4.4 billion.

We took a leadership role in delivering government stimulus programs such as the Business Credit Availability Program, a partnership with Export Development Canada and Canada's private sector banks to make more than $5 billion of incremental financing available to Canadian businesses. This goal has been met and surpassed. At BDC, we have provided $2.8 billion under this program.

We also managed the Canadian Secured Credit Facility to provide liquidity to the car and equipment loan and lease financing market. As of April 2010, we had bought $3.7 billion in securities. And our pricing benchmarks and willingness to purchase these securities indirectly facilitated additional purchases of asset-backed securities in the Canadian marketplace.

Q: WHAT SHOULD BUSINESSES DO TO PROSPER IN THE POST-RECESSION ECONOMY?

They have to adapt. In today's globalized economy, with millions of entrepreneurs vying to serve markets everywhere, the future doesn't belong to the big—it belongs to the adaptable. The firms that will succeed will be the ones that constantly scan for new threats and hunt for new opportunities, and then face both by making the often-tough decisions to change strategy and invest in change, by investing in the hard assets that they need; and by taking innovative approaches to their challenges.

Q: IS BDC DIFFERENT FROM PRIVATE SECTOR FINANCIAL INSTITUTIONS?

Yes. Our reason for being is the success of entrepreneurs, not the creation of quarterly returns for shareholders. This is a very important distinction; it means we have the latitude to come up with solutions that entrepreneurs need.

Why? Because when entrepreneurs take risks and innovate, the national economy is strengthened. Canada benefits from their success. And sometimes they need help in sharing these risks.

In addition to taking more risk, we are **patient** and **flexible**. During difficult times, these qualities are prized. When the recession hit, many businesses' cash flows dwindled. **We allowed many clients to temporarily suspend their principal payments if doing so would help see them through the dry period. Four thousand did so.**

Our role complements that of our private sector peers. We cooperate with them and enjoy teaming up with them to deliver financial support to Canadian businesses.

Q: DID BDC REMAIN COMMERCIALLY VIABLE DURING THE RECESSION?

Yes, we made a small profit. Our total gross portfolio grew to $17.1 billion. Most of this, $13.3 billion, is in our financing group. It also includes $193 million in subordinate financing, $362 million in venture capital investments and $3.3 billion in asset-backed securities. Last but not least, consulting revenue reached $28.1 million.

We do not receive annual appropriations from Parliament. We are profitable, and since 1997 have paid $173.5 million in cumulative dividends to the Government of Canada.

Q: WHAT WERE THE STRAINS ON BDC?

Employees were under great pressure to deliver more, which they did.

The recession also raised outsiders' expectations of us and this was sometimes difficult because while we can take more risk than private sector banks can, we can't say yes to proposals that aren't creditworthy.

Also, as part of its stimulus program, the government entrusted us with two large, technically and logistically challenging tasks. But we're a nimble, business-minded organization, and we made it happen.

Q: WHAT ARE THE CHALLENGES AHEAD FOR BDC AND ENTREPRENEURS?

For Canada, the challenge is lacklustre competitiveness. Our entrepreneurs have to become more productive and innovative to sell their goods and services to huge numbers of consumers in other countries, plus fend off competitors from those same places. They need to invest in machinery and equipment, as well as information and communication technology.

Remember that our clients' challenges dictate ours. We strive to provide what they need. And because their needs are constantly evolving, we have to keep innovating. So BDC's future looks to be more of the same: effective, efficient, flexible support for Canadian businesses.

Q: YOU WERE JUST APPOINTED TO ANOTHER FIVE-YEAR TERM. HOW DOES THAT FEEL?

I'm delighted. I'm proud to be part of such a necessary, effective organization—and excited about the future.

I'm also grateful to the BDC team—this past year was tough, and they delivered. A recession is a development bank's time to shine. Their passionate support for entrepreneurs ensured we did. They should be proud of themselves. I certainly am.

Jean-René Halde
President and Chief Executive Officer

MANAGEMENT'S DISCUSSION AND ANALYSIS

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2. STRATEGY AND KEY PERFORMANCE INDICATORS 28

3. RISK MANAGEMENT 34

4. ANALYSIS OF FINANCIAL RESULTS 40

5. ACCOUNTING AND CONTROL MATTERS 52

FORWARD-LOOKING STATEMENTS
BDC regularly makes written and oral forward-looking statements in its annual report, in press releases and in other communications. These forward-looking statements include statements about objectives and strategies for achieving objectives, as well as statements about outlooks, plans, expectations, anticipations, estimates and intentions.

By their very nature, forward-looking statements involve numerous factors and assumptions, and they are subject to inherent risks and uncertainties, both general and specific. These uncertainties give rise to the possibility that predictions, forecasts, projections and other elements of forward-looking statements will not be achieved. A number of important factors could cause actual results to differ materially from the expectations expressed. These factors include credit, market, operational and other risks identified and discussed in the risk management section; interest rate fluctuations; opportunities to complete successful divestitures of investments; and changes in accounting standards, policies and estimates.

ROLE AND ACTIVITIES

1,860 EMPLOYEES

102 OFFICES ACROSS CANADA

5 BUSINESS LINES:
FINANCING; SUBORDINATE FINANCING; VENTURE CAPITAL; CONSULTING; SECURITIZATION

1 MANDATE:
SUPPORT CANADIAN ENTREPRENEURS

WE DELIVERED: BCAP

WHEN THE FINANCIAL CRISIS AND RECESSION HIT, BDC RESPONDED QUICKLY AND SUCCESSFULLY.

BUSINESS CREDIT AVAILABILITY PROGRAM (BCAP)

IN JANUARY 2009, THE GOVERNMENT OF CANADA ASKED US TO USE OUR COLLABORATIVE RELATIONSHIPS WITH CANADA'S PRIVATE SECTOR FINANCIAL INSTITUTIONS AND EXPORT DEVELOPMENT CANADA TO STIMULATE THE CANADIAN ECONOMY BY PROVIDING LOANS AND OTHER FORMS OF SUPPORT TO CREDITWORTHY BUSINESSES WHOSE ACCESS TO FINANCING WOULD OTHERWISE BE RESTRICTED.

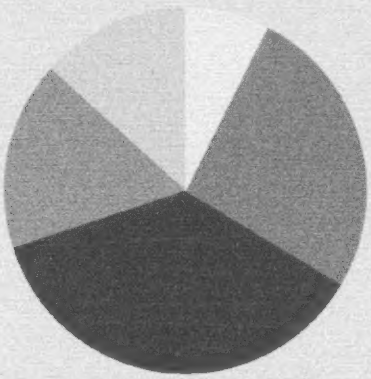
BCAP's goal was to ensure that at least $5 billion of incremental financing was available for Canadian businesses. That number has now been surpassed.

For us, participation in BCAP meant referrals — at the request of other financial institutions, we made loans that are usually beyond the risk appetite of these institutions. We also participated in syndicates to replace departing lenders, shared an increasing number of commercial deals with financial institutions on a 50/50 basis and bought participation in commercial mortgages.

Since February 2009, through BCAP alone, we provided $2.8 billion in support. The program and partnerships have been so successful that they will continue into our new fiscal year.

BCAP, by Geographic Region

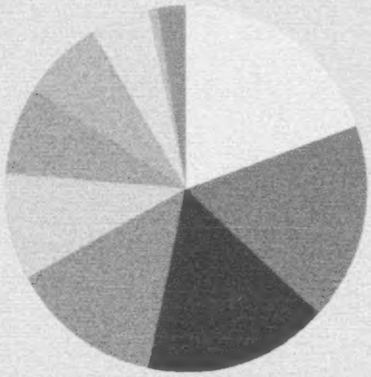
from February 2009 to March 2010 (**$ in millions**)



Atlantic provinces	209.2
Quebec	721.2
Ontario	998.9
Prairies, Northwest Territories and Nunavut	462.6
British Columbia and Yukon	360.3
Total	**2,752.2**

BCAP, by Industry Sector

from February 2009 to March 2010 (**$ in millions**)



Manufacturing (excl. wood and paper products)	542.4
Supplier of premises (commercial property)	474.5
Wholesale and retail	456.5
Tourism	375.5
Mining and utilities, resources, forestry and related	257.7
Construction	211.7
Business services (excl. IT) and non-business services	198.3
Transport and storage	150.1
IT and telecom	23.6
Other	61.9
Total	**2,752.2**

WE DELIVERED: THE CSCF

CANADIAN SECURED CREDIT FACILITY (CSCF)

THE GOVERNMENT OF CANADA ASKED US TO CREATE AND MANAGE THE CSCF.

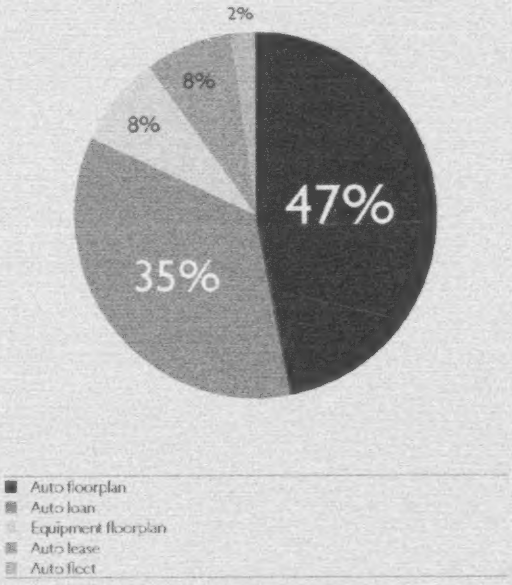
The CSCF had two objectives. The first was to stimulate economic activity in Canada by supporting the sales and leasing of vehicles and equipment by purchasing term asset-backed securities. The second was to promote investor participation and confidence in the Canadian term asset-backed securities market, as well as in vehicle and equipment financing more broadly.

The CSCF ended on March 31, 2010. Through it, we will have purchased, in five transactions, $3.7 billion in securities. This was instrumental in restarting the securitization market in Canada, providing direction to the market, and adding liquidity for originators who were unable to place public or private market issues.

BDC's initial commitment of $12 billion under the CSCF pegged pricing benchmarks for market players, making public and private issuances possible by giving them a comparable. This in itself was an achievement.

Our investments of $3.7 billion directly facilitated an estimated total of $4.3 billion of public issuance. And our pricing benchmarks and willingness to purchase these securities indirectly facilitated both public and private non-CSCF transactions—transactions that have amounted to an estimated additional $4.7 billion of asset backed security issuance in the Canadian marketplace.

CSCF Breakdown of Purchases (Totalling $3.7 Billion)



WE TAKE MORE RISK TO SUPPORT ENTREPRENEURS

During the past year, the financial crisis and recession made it difficult for Canadian businesses to obtain financing. Macro-economic uncertainty, combined with decreasing financial strength and the heightened riskiness of many businesses, increased the level of scrutiny of private sector financial institutions.

BDC provides financing under terms and conditions that complement those of private sector institutions. We support projects that are creditworthy but, in general, riskier than the ones that they typically accept. So as credit dried up during the recession, BDC stepped in, lending more money than at any other time in our 65-year history.

Our willingness to take more risk means entrepreneurs have more choice and opportunity to get financing and grow their businesses.

We know that when entrepreneurs succeed, the rewards for Canada are manifold. When they create and innovate, the national economy benefits.

OUR ALLOWANCE FOR CREDIT LOSSES RATE IS AT LEAST

5X

GREATER THAN THAT OF PRIVATE SECTOR FINANCIAL INSTITUTIONS.

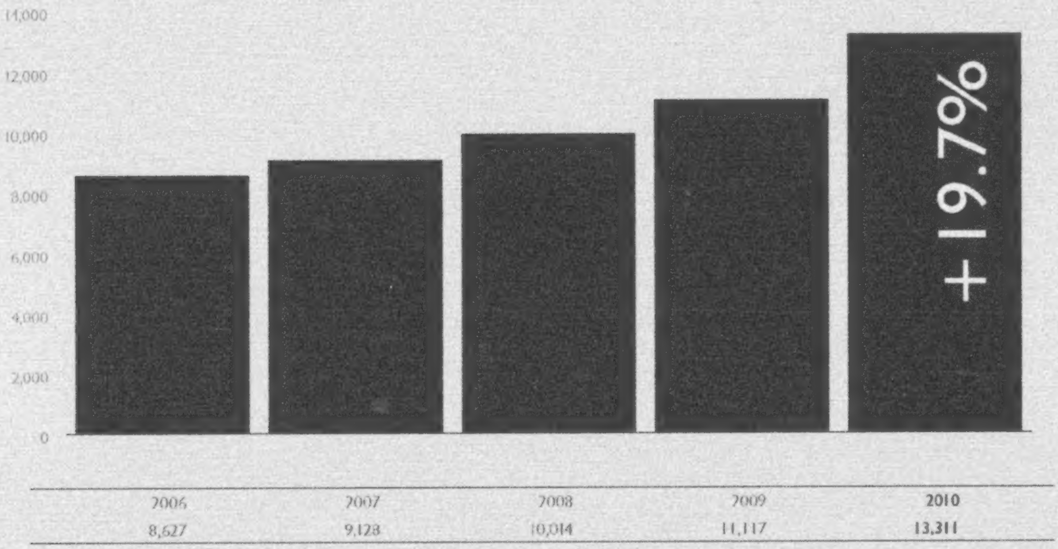
WE SUPPORT BUSINESSES

WE DELIVER FINANCING, CONSULTING SERVICES AND VENTURE CAPITAL TO COMPANIES, WITH A SPECIAL FOCUS ON THE NEEDS OF SMALL AND MEDIUM-SIZED ENTERPRISES. THIS SUPPORT IS COMPLEMENTARY TO THAT PROVIDED BY PRIVATE SECTOR INSTITUTIONS.

WE CONTINUE TO SUPPORT ENTREPRENEURS.

Loans Outstanding, BDC Financing

As at March 31 ($ in millions)



ROLE

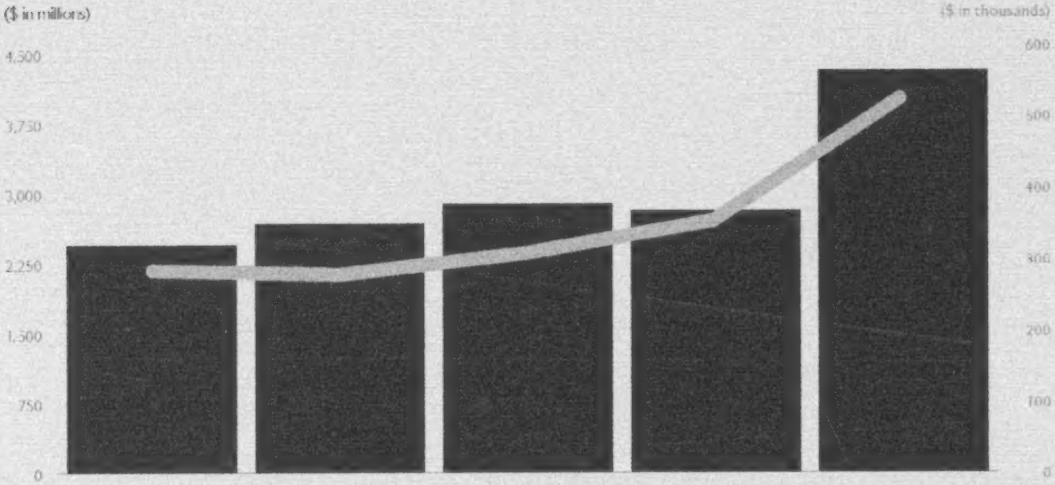
In 1995, Parliament passed the *Business Development Bank of Canada Act*. The Act mandated BDC to promote entrepreneurship. All Canadians benefit from a more vibrant economy when entrepreneurs succeed. For this reason, entrepreneurs merit collective support.

OUR ACTIVITIES

The services we offer to entrepreneurs determine our organizational structure: BDC Financing, BDC Subordinate Financing, BDC Venture Capital, BDC Consulting and BDC Securitization.

Acceptances, BDC Financing

(for the years ended March 31)



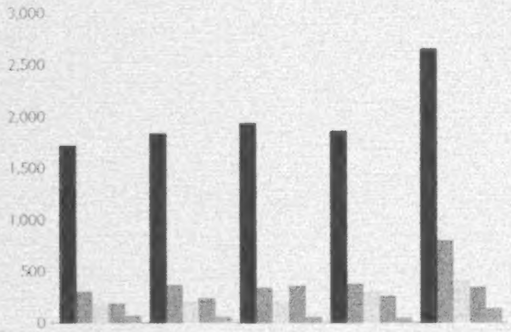
Acceptances	2006	2007	2008	2009	**2010**
■ Amount ($ in millions)	2,462	2,692	2,907	2,832	**4,343**
□ Average transaction size ($ in thousands)	293	287	318	365	**542**

For reporting purposes, data prior to 2007 are based on authorizations.

WE SUPPORT ENTREPRENEURS AT EVERY STAGE OF THEIR BUSINESS, FOR A VARIETY OF BUSINESS PURPOSES.

BDC Financing, by Primary Loan Purpose

for the years ended March 31 ($ in millions)

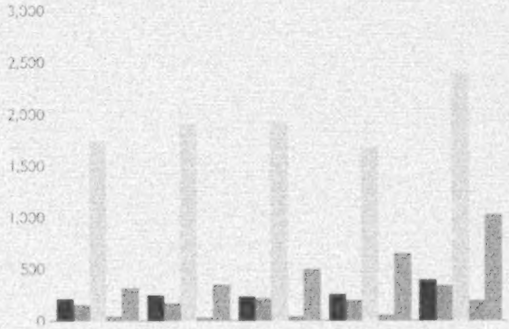


	Acceptances				
	2006	2007	2008	2009	**2010**
■ Fixed assets	1,714	1,829	1,935	1,852	**2,648**
▨ Refinancing	307	361	341	373	**798**
░ Working capital	184	201	213	305	**413**
▨ Change of ownership	187	239	357	260	**345**
▨ Other	70	62	61	42	**139**
■ ▨ Total	2,462	2,692	2,907	2,832	**4,343**

For reporting purposes data prior to 2007 are based on authorizations

BDC Financing, by Stage of Development

for the years ended March 31 ($ in millions)



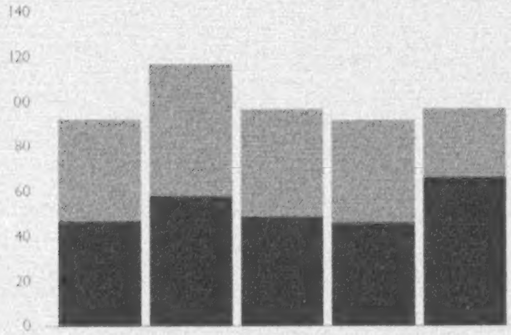
	Acceptances				
	2006	2007	2008	2009	**2010**
■ Start-up	213	242	234	253	**395**
▨ Development	153	171	216	197	**335**
░ Expansion	1,731	1,906	1,913	1,674	**2,396**
▨ Turnaround	46	27	46	55	**192**
▨ Mature	319	346	498	653	**1,025**
■ ▨ Total	2,462	2,692	2,907	2,832	**4,343**

WE SUPPORT ENTREPRENEURS WHO WANT TO GROW THEIR BUSINESS, BUT LACK COLLATERAL FOR A CONVENTIONAL LOAN.

For entrepreneurs who need capital to grow but do not have the tangible security that conventional lenders require or do not want to dilute their ownership of their firm, we offer subordinate financing, a hybrid of debt and equity financing. We previously offered this service through partnership funds with the Caisse de dépôt et placement du Québec (the Caisse). As these funds were fully committed by fall 2009, BDC began funding subordinate financing transactions on its own. This year, we received $97.7 million in acceptances from clients (including the Caisse's portion).

BDC Subordinate Financing

for the years ended March 31 ($ in millions)



Acceptances

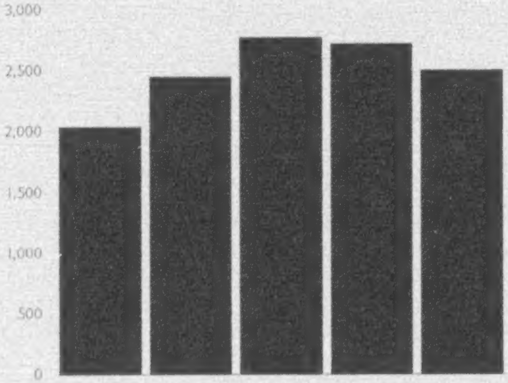
	2006	2007	2008	2009	**2010**
■ BDC portion	47.1	58.4	48.7	46.3	**66.7**
▨ Caisse portion	46.0	59.4	48.7	46.3	**31.0**
■▨ Total	93.1	117.8	97.4	92.6	**97.7**

WE HELP ENTREPRENEURS IMPROVE THE MANAGEMENT OF THEIR BUSINESS AND BECOME MORE COMPETITIVE.

It takes skill and know-how to survive a recession and thrive in a recovery. We offer entrepreneurs tailored, high-quality consulting services at a price they can afford. Our goal is to help them improve the management of their business and become more competitive. This year, we started 2,504 consulting mandates.

BDC Consulting Mandates

for the years ended March 31 (in numbers)



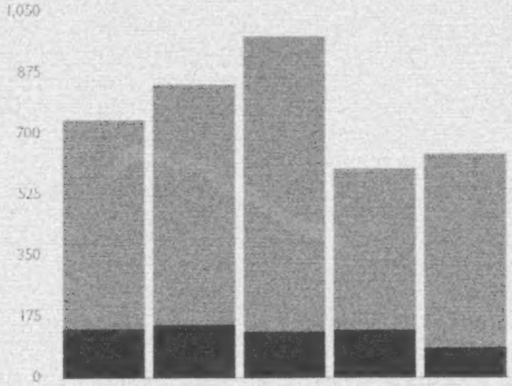
2006	2007	2008	2009	**2010**
2,037	2,451	2,770	2,720	**2,504**

WE HELP ENTREPRENEURS COMMERCIALIZE R&D.

Canada needs entrepreneurs who can turn ideas and technologies into attractive products and successful companies. Venture capital support for these entrepreneurs is a vital public policy goal for the federal government. But Canada's venture capital industry continues to struggle. The global recession has exacerbated its difficulties, so our support has been more important than ever.

Total Value of BDC Venture Capital Projects Financed

for the years ended March 31 ($ in millions)

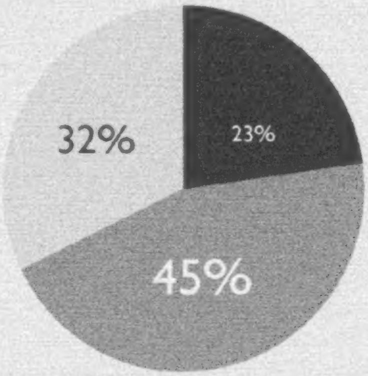


	2006	2007	2008	2009	**2010**
■ BDC Venture Capital authorizations	140	151	130	137	**85**
▨ Non-BDC sources of investment	598	690	848	462	**467**
■▨ Total	738	841	978	599	**552**

THIS YEAR, WE AUTHORIZED $51.3 MILLION IN DIRECT INVESTMENTS AND $33.3 IN FUNDS TOTALLING $84.6 MILLION.

BDC Venture Capital Direct Investments Authorized, by Stage of Development

for the year ended March 31, 2010 (percentage of dollar value)



- ■ Start-up or seed
- ▨ Development
- ░ Expansion

WE HELPED RECREATE A MARKET FOR AUTO AND EQUIPMENT LOANS AND LEASING

The Government of Canada created the CSCF in its January 2009 budget as part of Canada's Economic Action Plan. The facility aimed to recreate a market for auto and equipment loans and lease securitization by purchasing Canadian AAA-rated term securities backed by loans and leases on vehicles and equipment, as well as dealer floorplan loans. The purpose of the CSCF was to increase liquidity in the market and to augment investor confidence in the above types of asset-backed securities. BDC designed and managed the CSCF, which was available until March 31, 2010.

WE PROMOTE ENTREPRENEURSHIP

TO REACH ENTREPRENEURS IN A DIVERSE SOCIETY LIKE CANADA'S, WE HAVE BUILT A DIVERSE TEAM AND USE AN INCLUSIVE APPROACH. WE STRIVE TO ENSURE OUR WORKPLACE DEMOGRAPHICS REFLECT THOSE OF THE CANADIAN POPULATION, AND WE COOPERATE WITH LOCAL BUSINESS ASSOCIATIONS, COMMUNITY GROUPS AND UNIVERSITIES TO HELP MEET THE VARYING NEEDS OF ENTREPRENEURS AND ASPIRING ENTREPRENEURS ACROSS THE COUNTRY.

RURAL

We have formal partnerships with more than 220 Community Futures Development Corporations, a cross-country network of contact points located mostly in rural areas. Through this network, we supported more than 1,100 entrepreneurs in fiscal 2010.

ABORIGINAL

We help promote economic development among Aboriginal people through the Aboriginal Business Development Fund. Our strategy includes providing management training, ongoing mentorship and loans of $2,000 to $20,000 with terms that vary depending on the cash flow of the project.

To raise entrepreneurship awareness among Aboriginal youth, we also organize E-Spirit, an Internet-based Aboriginal youth business plan competition. To date, about 4,500 students have participated in the competition, and former competitors have gone on to operate their own businesses based on their E-Spirit plans. Last year, we held the E-Spirit awards ceremony in Kelowna.

YOUNG CANADIANS AND SMALL BUSINESSES

Many young entrepreneurs find it hard to secure financing because they have little or no management experience, financial resources or track record. With 22 Entrepreneurship Centres across Canada, we offer lending, consulting and other business resources specifically aimed at meeting the needs of young entrepreneurs with small businesses. In fiscal 2010, the centres granted $211 million in loans. Over the past five years, we have authorized about $800 million in financing to young entrepreneurs across Canada.

We celebrate the creativity and business success of young entrepreneurs with awards such as our high-profile annual Young Entrepreneur Awards.

We also support the following:

- the Junior Achievement program for high school students interested in developing their entrepreneurial skills;
- the Canadian Youth Business Foundation (CYBF), a national foundation that provides pre-launch coaching, business resources, start-up financing and mentoring for people between 18 and 34 who want to start businesses (we co-finance their business ventures);
- Advancing Canadian Entrepreneurship (ACE), which helps stimulate an entrepreneurial mindset among students in colleges and universities (this support includes sponsorship of the Students in Free Enterprise (SIFE) program, which ACE organizes);
- the Impact Entrepreneurship Group, a national, student-run organization that is a catalyst for science students interested in entrepreneurship and leadership;
- Enterprize, a national competition in which university students from across the country submit business plans, and compete in regional and national finals; and
- the Vanier College—BDC Case Challenge, in which students from Ontario and Quebec vie for medals in a competition focusing on entrepreneurial skills.

CORPORATE SOCIAL RESPONSIBILITY

BDC'S FIRST RESPONSIBILITY IS TO SUPPORT ENTREPRENEURS.

We define corporate social responsibility (CSR) as different from charity and more than compliance with law. It is about meeting society's expectations of responsible behaviour, and managing the economic, social and environmental consequences of our actions. To be responsible, we must

- be accountable to our shareholder and Canadians;
- offer relevant, helpful support to entrepreneurs in all parts of Canadian society;
- use ethical and honest business practices;
- create a workplace environment that attracts and retains talented, effective people; and
- work to reduce our environmental impacts.

RESPONSIBILITY: AN ORGANIZATIONAL CULTURE

We work hard to meet these expectations and have made them part of our daily life and organizational culture by incorporating them into policies, practices and key performance indicators. We report on them publicly via our annual report to Parliament and take pride when they are recognized by outside parties (as noted elsewhere in this report).

A PRINCIPLE, NOT A PROGRAM

We believe responsibility is a principle, not a stand-alone program or box-ticking exercise. We are striving to make it a broader, even stronger operational principle that shapes our policies and practices.

DRIVEN BY EMPLOYEES

BDC's Corporate Social Responsibility Advisory Council is made up of 14 employees from across the country and all parts of BDC. Its role is to recommend to management specific responsible policies and practices to help BDC meet its strategic objective of providing relevant, useful and commercially viable support to Canadian entrepreneurs. The council's first focus: climate change.

COMPETITIVENESS

States and markets around the world are acting to put a price on carbon. We will inform entrepreneurs of this change, encourage them to adapt and support them as they do. We will strive to be the financier of choice for entrepreneurs who are striving to operate in an environmentally sustainable manner.

To begin, we will reduce our own operational greenhouse gases. By doing so, we will reduce operational costs and, more fundamentally, gain experience and insights we will use to design services to help clients reduce their energy use and greenhouse gas emissions.

In fiscal 2010, we took a first step toward setting our greenhouse gas reduction target, for which we will need to create a baseline of reliable data on our current emissions, which in turn requires us to know exactly how much energy we are consuming. We have done a pilot project to test the ability of our information systems to give us the information we need. The pilot project helped us decide what to do next.

Establishing the baseline will take time and effort. Our challenge is that we rent more than 100 offices across the country, many from landlords whose systems are not equipped to provide this precise information.

THE ENVIRONMENT

BDC provides environmentally responsible support to entrepreneurs in all sectors. The hallmark of this responsibility is BDC's adherence to the *Canadian Environmental Assessment Act*.

2 STRATEGY AND KEY PERFORMANCE INDICATORS

OUR KEY PERFORMANCE INDICATORS

1.

CLIENTS

Create a unique and valued relationship with Canadian entrepreneurs, so that we can support their business projects and accompany their growth (measured by client satisfaction).

2.

EMPLOYEES

Foster a culture of engagement, learning and growth (measured by employee engagement).

3.

EFFICIENCY

Maintain effective and efficient operating and administrative expenses as a percentage of net interest and other income (measured by the efficiency ratio).

4.

FINANCIAL SUSTAINABILITY

Fulfill our mandate: be profitable to fund the growth of our portfolio, generate a return on common equity (ROE) at least equal to the government's average long-term cost of capital and be able to withstand unfavourable economic circumstances without requiring government funding.

1.

CLIENTS

We strive to be more than just a bank for our clients. We are a knowledgeable and flexible long-term partner. Our mandate is clear: support our clients in their efforts to build stronger, more profitable businesses. Our well-trained employees are available, through good times and bad, to help their clients succeed.

Every year, we hire an external firm to do a client satisfaction survey to measure the degree to which our clients value their relationships with us.

CLIENT SATISFACTION

F2008	F2009	F2010	**F2010**
Actual	Actual	Objective	**Actual**
93%	92%	88%	**91%**

PERFORMANCE IN FISCAL 2010

We were able to maintain our client satisfaction level during fiscal 2010, a remarkable achievement in light of the recession and credit crisis, which affected the ability of many of our clients to obtain financing. This result is better than expected, as we had originally anticipated a deeper and more severe recession that would have strained client satisfaction.

2.

EMPLOYEES

The people we hire have the skills and dedication to our mandate to ensure that our clients get the support they need. Once they are part of the BDC team, we work to engage and retain them. The engagement of our employees is measured through an annual survey done by an external firm.

EMPLOYEE ENGAGEMENT

F2008	F2009	F2010	**F2010**
Actual	Actual	Objective	**Actual**
76%	75%	75–80%	**77%**

PERFORMANCE IN FISCAL 2010

We are proud of our employee engagement results for fiscal 2010. They highlight the fact that most of our employees have positive things to say about BDC, wish to continue working here and strive to make an extra effort to contribute to our success.

This past year, we were recognized as one of the Top 100 Employers in Canada for the fourth year in a row, a Top Employer for New Canadians for the third year in a row and a Top Employer for Diversity for the first time. We view this external recognition as another indicator of our success in creating an engaging work environment.

3.

EFFICIENCY

We strive to be as efficient as possible. To measure our efficiency, we use a ratio of expenses to income. We use our financing and subordinate financing operating and administrative expenses as a percentage of their net interest and other income. Other income includes fee income and realized gains or losses on financial instruments from financing, and realized gains or losses on investments and other income from subordinate financing.

When we spend fewer dollars to generate each dollar of revenue, we are more efficient. The lower the ratio, the greater the efficiency.

EFFICIENCY RATIO*

F2008	F2009	F2010	**F2010**
Actual	Actual	Objective	**Actual**
48.0%	41.4%	46.3%	**44.3%**

* The fiscal 2009 ratio was restated due to expense reclassification.

PERFORMANCE IN FISCAL 2010

Our efficiency ratio was 44.3% in fiscal 2010, 2.9 percentage points higher than last year, but 2 percentage points lower than anticipated.

BDC anticipated an increase in expenses in order to support growth. While fiscal 2010 growth was higher than expected, in part due to the implementation of new initiatives, BDC operating and administrative expenses were lower than planned, thus resulting in greater efficiency.

This result compared with last year is mainly explained by the $29 million in net realized gains recorded in fiscal 2009. (Please see page 47 for more information.) Excluding net realized gains or losses on financial instruments, our efficiency ratio was only 0.5 percentage points higher than last year's, meaning we were able to efficiently support our growth, while investing in process improvements.

4.

FINANCIAL SUSTAINABILITY

OUTSTANDING BDC FINANCING PORTFOLIO

To fulfill our public policy mandate, we must be profitable so that we can grow and invest in our services. The driving force behind our financial sustainability is the BDC Financing portfolio.

OUTSTANDING BDC FINANCING PORTFOLIO
(in billions)

F2008	F2009	F2010	**F2010**
Actual	Actual	Objective	**Actual**
$10.0	$11.1	$12.3	**$13.3**

PERFORMANCE IN FISCAL 2010

The gross closing portfolio rose from $11.1 billion to $13.3 billion, a significant increase of $2.2 billion, or 19.7% when compared with fiscal 2009. This result also exceeds the corporate plan objective by $1.0 billion. The strong growth of the portfolio is testimony to our commitment to support Canadian businesses through difficult economic times with both traditional lending and a series of new initiatives.

The most important contributor to this growth was disbursements. We disbursed $3.9 billion in fiscal 2010, $1.1 billion more than in fiscal 2009. This increase was mainly the result of our collaboration with private sector financial institutions under the Business Credit Availability Program (BCAP).

BDC CONSULTING REVENUE

BDC's consulting services have national reach and are based on a wealth of knowledge and experience singularly focused on the needs of small and medium-sized businesses. We offer entrepreneurs a range of customized, quality consulting services at prices they can afford.

BDC CONSULTING REVENUE

(in millions)

F2008	F2009	F2010	**F2010**
Actual	Actual	Objective	**Actual**
$24.8	$27.4	$24.0	**$28.1**

PERFORMANCE IN FISCAL 2010

We posted consulting revenue this fiscal year of $28.1 million, a record for BDC and $4.1 million higher than our corporate plan objective. We had anticipated a recessionary lull in demand and set a lower objective. Thankfully, many entrepreneurs saw the wisdom of seeking advice and used consulting services to strategize for the economic recovery.

ADJUSTED RETURN ON COMMON EQUITY

Since BDC does not give grants or contributions and does not receive an annual appropriation from Parliament, we aim to generate a return on common equity (ROE) that is at least equal to the government's average long-term cost of capital.

ROE represents net income excluding securitization results, minus preferred share dividends, expressed as a percentage of average common equity. It excludes other comprehensive income or loss, and accumulated other comprehensive income or loss.

ADJUSTED RETURN ON COMMON EQUITY*

F2008	F2009	F2010	**F2010**
Actual	Actual	Objective	**Actual**
4.7%	4.8%	(8.1)%	**0.1%**

* The fiscal 2009 ratio was restated due to expense reclassification from financing to securitization.

PERFORMANCE IN FISCAL 2010

BDC's adjusted ROE in fiscal 2010 was 0.1%, compared with 4.8% last year and a corporate plan objective of negative 8.1%.

The shortfall in ROE compared with last year is mainly explained by net losses on financial instruments in fiscal 2010, compared with net gains in fiscal 2009. (Please see page 47 for more information.)

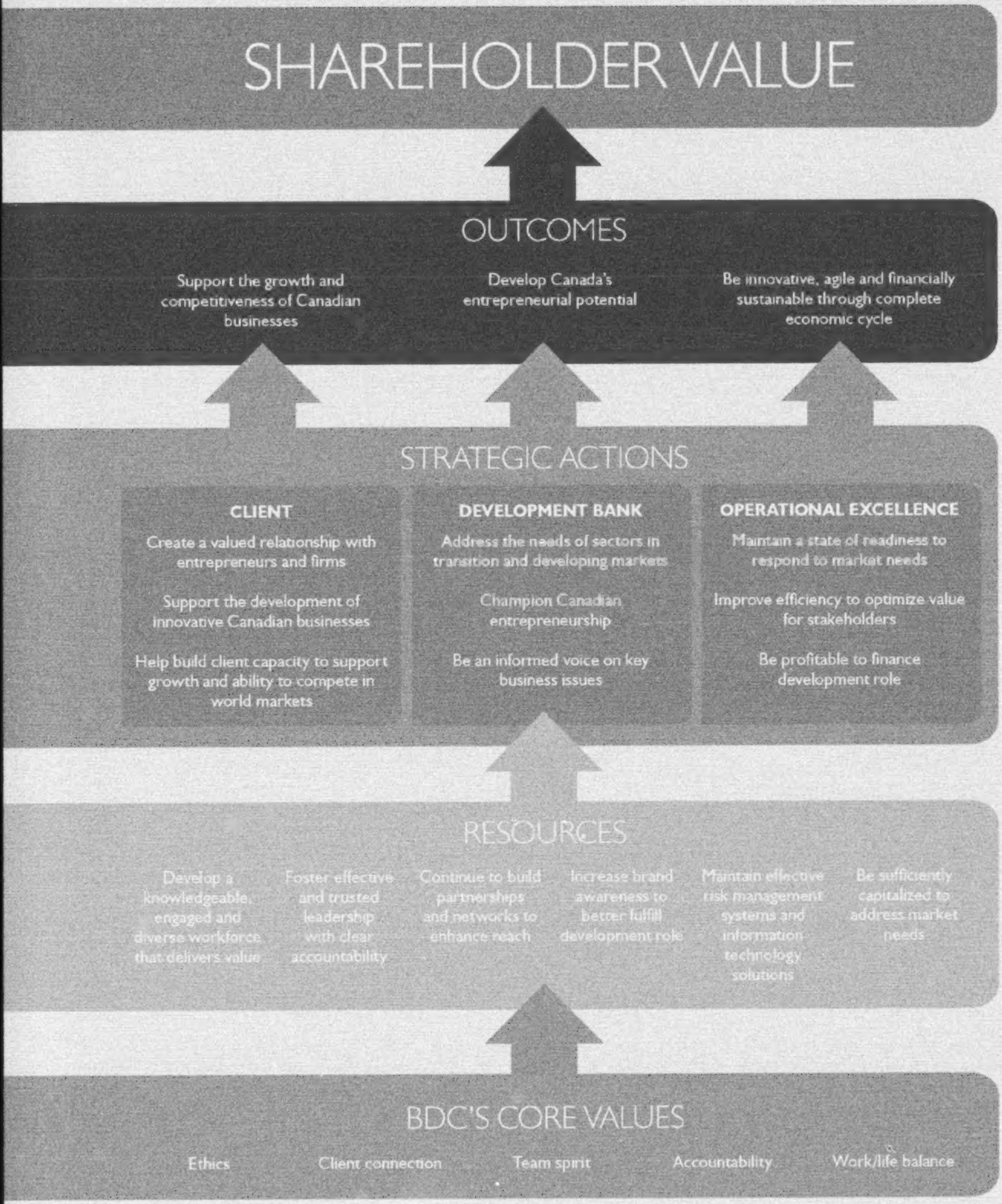
Adjusted ROE is significantly higher than planned as all business lines achieved better than anticipated results.

BDC STRATEGY MAP 2011–2015

OUR STRATEGY MAP CONVEYS OUR HIGH-LEVEL STRATEGIC PLAN

MISSION
HELP CREATE AND DEVELOP CANADIAN BUSINESS THROUGH FINANCING, VENTURE CAPITAL AND CONSULTING SERVICES, WITH A FOCUS ON SMALL AND MEDIUM-SIZED ENTERPRISES

VISION
ACCELERATE THE SUCCESS OF ENTREPRENEURS



SHAREHOLDER VALUE

OUTCOMES

Support the growth and competitiveness of Canadian businesses

Develop Canada's entrepreneurial potential

Be innovative, agile and financially sustainable through complete economic cycle

STRATEGIC ACTIONS

CLIENT

Create a valued relationship with entrepreneurs and firms

Support the development of innovative Canadian businesses

Help build client capacity to support growth and ability to compete in world markets

DEVELOPMENT BANK

Address the needs of sectors in transition and developing markets

Champion Canadian entrepreneurship

Be an informed voice on key business issues

OPERATIONAL EXCELLENCE

Maintain a state of readiness to respond to market needs

Improve efficiency to optimize value for stakeholders

Be profitable to finance development role

RESOURCES

Develop a knowledgeable, engaged and diverse workforce that delivers value

Foster effective and trusted leadership with clear accountability

Continue to build partnerships and networks to enhance reach

Increase brand awareness to better fulfill development role

Maintain effective risk management systems and information technology solutions

Be sufficiently capitalized to address market needs

BDC'S CORE VALUES

Ethics

Client connection

Team spirit

Accountability

Work/life balance

3

RISK MANAGEMENT

WE MANAGE OUR RISKS BY USING FORMAL RISK REVIEWS AND PROCESSES, DEVELOPING AND COMMUNICATING POLICIES, AND SETTING DELEGATED AUTHORITIES AND LIMITS.

Risk is a defining, unavoidable feature of the financial services sector. It is inherent in virtually all of our activities.

Risk is also a defining, unavoidable feature of entrepreneurial activity. And as we enter into business relationships with Canada's entrepreneurs, we must master the identification and management of several kinds of risk—to the greatest degree possible—to succeed.

BDC has a strong culture of risk management that emphasizes transparency and accountability.

Our board of directors provides the necessary, independent oversight of BDC's exposure to risk.

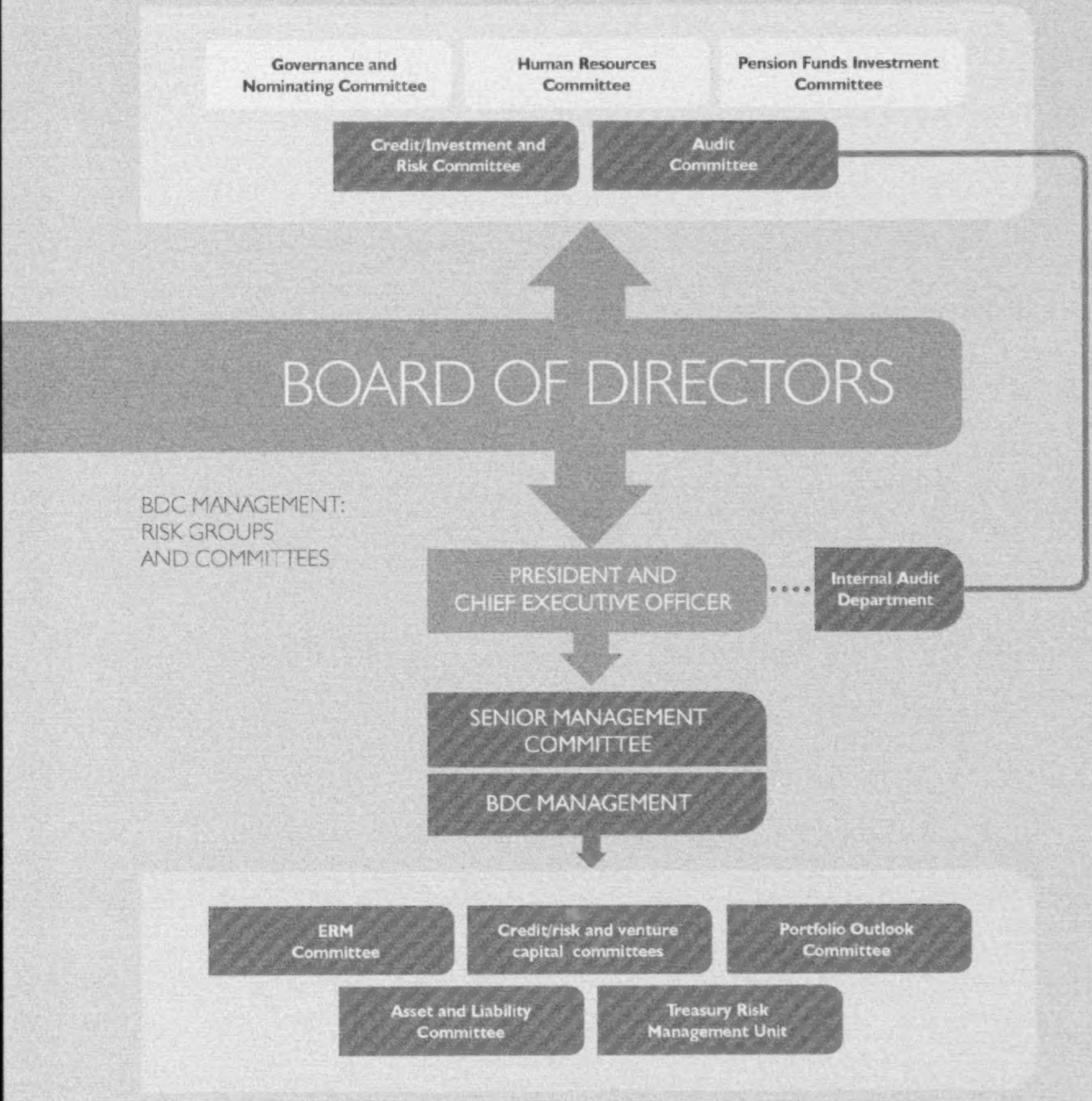
ENTERPRISE RISK MANAGEMENT

BDC's board of directors regularly reviews and approves our enterprise risk management (ERM) policy, an umbrella policy that codifies the integrated, enterprise-wide process by which we identify, manage and report risks. It also defines the roles and responsibilities of board members, executives and employees in implementing the policy.

PRINCIPLES OF ENTERPRISE RISK MANAGEMENT

1. Risk management is everyone's responsibility, from the board of directors to individual employees.
2. Risk is managed by balancing the trade-offs between risk and return.
3. Risk management is integrated into strategic, business and budget planning, and lending, investing and consulting decisions.
4. We assess BDC's risks regularly.
5. The umbrella ERM policy codifies a comprehensive, disciplined and continuous process by which we identify, analyze, and accept or mitigate risks.
6. The ERM policy is not static; it changes through annual reviews that align it with our evolving practices and needs.
7. All of our policies and processes are consistent with ERM.
8. The board of directors establishes the maximum levels of risk that BDC will tolerate in pursuit of its mandate.

THE BOARD OF DIRECTORS AND ITS RISK-RELATED COMMITTEES


Governance and Nominating Committee
Human Resources Committee
Pension Funds Investment Committee
Credit/Investment and Risk Committee
Audit Committee
BOARD OF DIRECTORS
BDC MANAGEMENT: RISK GROUPS AND COMMITTEES
PRESIDENT AND CHIEF EXECUTIVE OFFICER
Internal Audit Department
SENIOR MANAGEMENT COMMITTEE
BDC MANAGEMENT
ERM Committee
Credit/risk and venture capital committees
Portfolio Outlook Committee
Asset and Liability Committee
Treasury Risk Management Unit

▨ Risk-related committees / function

☐ Other committees

THE BOARD OF DIRECTORS AND ITS RISK-RELATED COMMITTEES

The board of directors and its five committees oversee risk management.

The board approves risk policies, risk appetite and strategies; ensures BDC's risk management is effective; reviews portfolio and treasury risks; reviews capital adequacy; establishes clear levels of delegation of authority for committing BDC to various types of transactions; and ensures that there is a link between risk and compensation.

Although all committees incorporate considerations of risk into their deliberations, as appropriate, two of these committees—the Credit/Investment and Risk Committee and the Audit Committee—have specific duties. For full details on the board and its committees, please see page 102.

The **Credit/Investment and Risk Committee (CIRC)** advises the board to ensure that the principal risks of BDC's business are identified and effectively managed. It regularly reviews the credit risk management policy, authorization limits and delegation levels, as well as the environment policy. It also reviews reports on ERM, portfolio risk management and treasury risk management. The CIRC approves transactions above a certain threshold.

The **Audit Committee** advises the board on the effectiveness of BDC's management of financial standards, integrity and conduct, internal systems for financial controls and disclosure controls, and audit processes.

BDC MANAGEMENT: RISK GROUPS AND COMMITTEES

The **Senior Management Committee** is composed of the president and chief executive officer, the executive operating officers and the designated vice presidents. It meets regularly to discuss emerging threats and opportunities. It also reviews the quarterly ERM reports.

Enterprise Risk Management (ERM) Committee members come from a cross-section of departments and disciplines. The mandate of the committee is one of oversight. It is responsible for ensuring the existence and effectiveness of an integrated vision to address key financial, operational and strategic risks that may adversely affect BDC and impair its ability to achieve its objectives. As such, the committee ensures that an adequate ERM framework is in place to identify trends in existing and emerging critical issues, evaluate or quantify their probable impact, and manage these risks by taking or recommending actions to mitigate them within BDC's risk appetite. The committee focuses its efforts on those risks it prioritizes as top risks requiring immediate attention, and ensures that the board receives timely and complete briefings on them and on plans to mitigate them.

The **Internal Audit Department** promotes sound risk management practices as outlined in BDC's corporate risk management policies. Its risk-based annual audit plan evaluates the way BDC is managing key risks, evaluates its reporting performance, and seeks assurance that risk management practices are present, appropriate and respected.

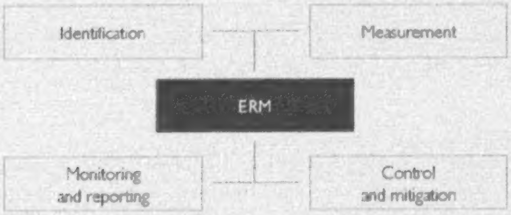
The **Credit/Risk Committee** and the **Venture Capital Committee (VCC)** are groups of senior employees appointed by the president and chief executive officer. They oversee large, high-risk transactions. Their principal responsibility is to adjudicate within prescribed limits. For larger transactions, they make recommendations to the Credit/Investment and Risk Committee of the board.

The **Portfolio Outlook Committee** comprises members from different parts of BDC, including field operations, market development, portfolio risk management and credit risk management. It reviews loan portfolio concentrations, risk migration, overall risk assessment and loan quality, and recommends actions.

The **Asset and Liability Committee** comprises the president and chief executive officer and representatives from a cross-section of BDC's departments. It oversees treasury funding and compliance with treasury risk policy, including the matching of assets and liabilities.

The **Treasury Risk Management Unit** identifies, measures, monitors and reports on the financial risk exposures of treasury activities. It also ensures these exposures comply with the treasury risk policy and with the policies of the board of directors and the minister of finance. It monitors the creditworthiness of counterparties to derivative transactions and their compliance with legal documentation standards. It also determines risk limits and develops risk measurement tools that adequately determine whether BDC's financial risk exposure is in line with current industry and regulatory standards. Finally, it develops BDC's treasury risk management framework.

The ERM policy is an enterprise-wide, umbrella policy that ensures we are methodical and consistent in our decision making and operations. It precludes us from managing risk in an uncoordinated or piecemeal way.



IDENTIFY

We regularly review BDC's activities to identify significant risks. Senior managers informally discuss significant corporate risks at weekly meetings and, at least quarterly, in formal committees.

Every quarter, we identify, assess and prioritize risks at the corporate and functional unit level, and present these to the board of directors. We also assess risks related to all significant projects, new products or services, and policy changes.

ANALYZE AND MEASURE

We quantify risk for all of our businesses and services. The ERM function is responsible for developing and maintaining the tools to do so, as well as for supporting colleagues on the operations teams.

CONTROL AND MITIGATE

We set risk tolerance objectives that are consistent with BDC's objectives and strategies, and establish policies and guidelines that codify our governance and risk management culture.

The internal audit and the portfolio risk management teams assess the conformity of the risk management policies and procedures and periodically test the internal controls. Every quarter, they present the results of these reviews to the Audit Committee of the board.

MONITOR AND REPORT

We monitor activities affecting BDC's risk profile, material risk exposure, actual losses and loss events, and take corrective actions to reduce risk exposures.

We measure risks across our businesses, products and services to ensure they reflect our policies and limits. Board members and senior managers use this information to understand BDC's risk profile and portfolio performance. Every quarter, the board's Credit/Investment and Risk Committee receives a comprehensive summary of both.

DEFINITIONS

Risk is the potential for an event, action or inaction that may threaten BDC's ability to achieve its business mandate and objectives. Risk is described in terms of likelihood of occurrence and potential impact.

FINANCIAL RISKS

Credit risk is the risk of loss that arises either directly or indirectly from the possibility of a default by a borrower or investee, a counterparty with whom BDC does business, or an issuer of an asset.

Market risk is the risk that the value of assets, liabilities or other financial instruments will fluctuate because of changes in market prices.

Liquidity risk is the risk that BDC will be unable to honour all of our contractual debts as they become due.

OPERATIONAL RISKS

Operational risk is the risk of potential losses arising from day-to-day errors caused by people, breakdowns in processes or systems, or events beyond our control, such as natural disasters.

Reputational risk is the risk of revenue loss or criticism from stakeholders posed by real or perceived breaches in our ability to securely and responsibly conduct our business. It includes risks associated with the activities of our clients.

Legal and regulatory risk is the risk that failure to comply with laws, regulations, public sector guidelines, industry codes or ethical standards will have a negative impact on our business activities, earnings, regulatory relationships or reputation. Legal risk includes the effectiveness with which we prevent and handle litigation.

Environmental risk is the risk of financial loss or damage to reputation caused by environmental issues. It is often embedded in other risks, such as credit or operational risk.

I. MANAGING FINANCIAL RISKS

This section should be read in conjunction with Note 19 to the Consolidated Financial Statements, Risk Management (page 85), which describes in more detail BDC's risk management policies and measurements for credit risk, market risk and liquidity risk.

Credit risk: The most important risk for BDC to manage is the credit risk derived from our commercial term lending — the largest part of BDC's portfolio.

It is at the branch level that we choose to take or avoid risk on individual transactions. All of our managers are trained to assess overall credit risk. We base our decisions on our experience with similar clients, and we use policies, procedures and risk assessment tools to help us make these decisions.

For further details on our management of credit risk, please see page 85.

Market risk: For details on our management of market risk, please see page 87.

Liquidity risk: For details on our management of liquidity risk, please see page 88.

II. MANAGING OPERATIONAL RISK

Operational risk arises from day-to-day errors caused by people, breakdowns in processes or systems, or events beyond our control, such as natural disasters.

We have internal controls for systems and processes used in our business transactions. We also have comprehensive policies and procedures that govern the way we process information, administer loans, manage employees and carry out our activities. When we review our top risks, we include the action plans that govern operational risk.

We regularly review all of our accounts. For example, we review our written-off accounts to identify any operational risks associated with loan operations. By compiling these risks, we can modify our internal control procedures, if necessary.

We manage the risks associated with technology and telecommunications failures by replacing and upgrading our computer systems and equipment. We have security and control procedures to reflect laws and privacy standards, and to ensure our information is accurate and efficiently managed. These systems are regularly audited.

We have a comprehensive business continuity planning process to ensure the continuity of key business functions during disasters, such as pandemics. We regularly review and test this contingency plan, including ways we would prepare for and respond to a flu epidemic.

To mitigate operational risk, we also use internal controls, policies and procedures. We monitor these and subject them to internal audits.

III. MANAGING REPUTATIONAL RISK

There are various ways in which BDC could suffer damage to its reputation by failing—or being perceived to fail—to meet the expectations of its stakeholders. We risk damaging our reputation if we:

> use unethical practices;

> fail to deliver satisfactory standards of service quality;

> fail to meet legal and ethical standards, such as privacy laws, codes of conduct, environmental standards or good employment practices;

> commit operational failures, by using improper practices or breaching confidentiality, for example;

> fail to meet the shareholder's expectation that we will support entrepreneurship; or

> have clients who fail to meet societal expectations of responsible behaviour, and this criticism is linked to us.

Organizations representing entrepreneurs and small and medium-sized enterprises may criticize the effectiveness of BDC's activity in the marketplace. Other financial institutions may question the pertinence of BDC's role and presence in the market. Potential clients may criticize BDC's services as inadequate for their specific needs.

Reputational risk management is an integral part of our corporate risk policies, which include but are not limited to

- the BDC Employee Code of Conduct, Ethics and Values;
- the Charter of Client Rights;
- the enterprise risk management policy;
- the credit risk management policy;
- the venture capital policy; and
- the policy on the handling of referrals and enquiries by members of Parliament, senators, ministerial staff and BDC directors.

At the corporate level, we also systematically track opinion leader and stakeholder interests, through dialogue and media monitoring.

At the operational level—that is, while carrying out transactions—we conduct screening and transaction due diligence before approving and underwriting projects. Our due diligence and approval process includes verifying that the potential client is not involved in money laundering or other corrupt activities, and ensuring that the potential client meets requirements related to transparency and disclosure, environmental performance, ethics, and credit eligibility. Broader decision-making responsibility rests with designated authorizing officers or authorizing committees.

IV. MANAGING LEGAL AND REGULATORY RISK

The BDC Legal Affairs and Corporate Secretariat manages all litigation involving BDC and helps BDC employees comply with legal and regulatory requirements. It also maintains close ties to government departments—notably Treasury Board of Canada, Secretariat—as well as private sector organizations that help BDC learn about potential or imminent regulatory changes. Finally, it provides the board of directors with the information it needs to oversee BDC's management of our legal and regulatory risks.

V. MANAGING ENVIRONMENTAL RISK

Environmental risk is the risk of financial loss or damage to reputation caused by environmental issues. It is often embedded in other risks, such as credit or operational risk.

We have a well-defined process for identifying and evaluating environmental risk when we authorize a loan. Since 1991, our environmental risk policy has guided our decisions. And since 2006, we have also complied with the *Canadian Environmental Assessment Act*, to ensure we do not fund projects that might have a significant adverse impact on the environment.

We also have a monitoring process to ensure we continue to identify and appropriately manage environmental risk.

4

ANALYSIS OF FINANCIAL RESULTS

THIS ANALYSIS COMPARES OUR FISCAL 2010 FINANCIAL PERFORMANCE WITH FISCAL 2009 RESULTS AND 2010–2014 CORPORATE PLAN OBJECTIVES.

OPERATING ENVIRONMENT

The depth and severity of the financial sector crisis and the global economic downturn of the last year brought tremendous challenges to the doorsteps of Canadian businesses. Over the past year, BDC was called on to help entrepreneurs deal with these challenges. As part of Canada's Economic Action Plan, the Government of Canada announced several measures to increase BDC's capacity to help viable Canadian businesses during this difficult period:

> the Business Credit Availability Program (BCAP), a collective effort through which BDC, Export Development Canada and private sector banks will collaborate to provide up to $5 billion in loans and other forms of credit support to businesses; and

> the Canadian Secured Credit Facility (CSCF)—established and managed by BDC—designed to provide up to $12 billion to support the financing of vehicles and equipment for businesses and consumers.

Through our traditional lending and a series of new initiatives, BDC helped thousands of entrepreneurs and Canadian businesses in fiscal 2010.

BDC Financing and Subordinate Financing activities grew at an unprecedented pace to an annual total of $4.4 billion. Collaboration with financial institutions under BCAP drove this growth, which highlighted how a development bank can help limit the negative impacts of an economic downturn. We also provided crucial support to Canadian businesses via our other business lines, authorizing $3.7 billion in asset-backed securities under the CSCF, authorizing $84.6 million in venture capital and starting 2,504 consulting mandates.

In Canada, the economic recovery is proceeding somewhat more rapidly than expected, due to continued fiscal and monetary stimulus, improved financial conditions, the rebound in global economic growth, more favourable terms of trade, and increased business and household confidence. In fact, optimism among Canadian small businesses is at its highest level in five years.

Nevertheless, the appreciation of the Canadian dollar, and Canada's relatively poor productivity, aging population and sovereign debt concerns, could impede growth as exports lag.

BDC's goal is to support our clients through the recovery period and help them prepare for the challenges ahead.

CAPITAL INJECTION

By investing additional capital in BDC by purchasing common shares, the Canadian government enabled us to reach out, extend credit, make new investments and support more businesses than BDC could support on our own capital base. The government invested

> $261 million to support BDC Financing clients through higher risk transactions;

> $945 million to create and manage the CSCF;

> $125 million for venture capital activity across Canada and an additional $50 million for venture capital activity in southern Ontario; and

> $75 million to invest in a late-stage venture capital fund.

The shareholder has also committed to providing an additional $225 million in capital to help BDC sustain our venture capital activities over the next two fiscal years.

LINES OF BUSINESS

BDC reports on five business lines: Financing, Subordinate Financing, Venture Capital, Consulting and Securitization. Securitization is a new business line resulting from BDC's purchase of asset-backed securities under the CSCF.

CONSOLIDATED NET INCOME

Considering the difficult economic environment, BDC reported commendable results and remained profitable. Consolidated net income for fiscal 2010 was $6.1 million, compared with $90.6 million in fiscal 2009. Excluding net realized and unrealized losses on financial instruments (see page 47), fiscal 2010 consolidated net income was $45.2 million, an increase of $43.3 million from the 2009 comparative figure. This increase was due to better results achieved by BDC Financing, BDC Subordinate Financing and BDC Venture Capital.

BDC Net Income

for the years ended March 31 ($ in millions)

	2010	2009	2008	2007	2006
Financing*	**115.3**	105.3	166.2	168.0	141.1
Subordinate Financing	**10.2**	6.8	11.0	7.9	13.7
Venture Capital	**(74.1)**	(106.3)	(82.8)	(33.6)	(12.8)
Consulting	**(4.6)**	(2.9)	(4.5)	(4.3)	(3.8)
Securitization	**(1.6)**	(1.0)	–	–	–
Net income before net (losses) gains on financial instruments	**45.2**	1.9	89.9	138.0	138.2
Net (losses) gains on financial instruments	**(39.1)**	88.7	(5.3)	n/a	n/a
Net income	**6.1**	90.6	84.6	138.0	138.2

* Excludes net gains (losses) on financial instruments. In addition, fiscal 2009 results have been restated, due to expense reclassification from Financing to Securitization.

Income from BDC Financing was $115.3 million, an increase of $10.0 million over last year. This increase was due to higher net interest income due to significant portfolio growth, partially offset by a higher provision for credit losses, and by operating and administrative expenses.

Income from BDC Subordinate Financing, at $10.2 million, was 51% higher than last year, an excellent result.

BDC Venture Capital results improved by $32.2 million compared with last year but continued to suffer due to difficult market conditions, and BDC Venture Capital reported a loss of $74.1 million.

On the other hand, BDC Consulting and BDC Securitization recorded net losses that, together, were $2.3 million higher than the same figures last year.

Net losses on financial instruments of $39.1 million significantly affected our results, as they negatively compared with net gains of $88.7 million recorded last year.

PERFORMANCE AGAINST OBJECTIVE

The consolidated net income of $6.1 million in fiscal 2010 was $960 million better than the corporate plan objective. Of the $960 million, $778 million related to BDC Securitization, as the corporate plan objective for fiscal 2010 included a $1.0-billion loss on initial recognition (previously referred to as Day One loss). Please see the analysis of BDC Securitization on page 47 for more details. Excluding the BDC Securitization results, consolidated net income was still $182 million higher than planned, as all business lines performed better than anticipated.

BDC Financing net income of $115.3 million was $191 million better than the corporate plan target, mostly because the provision for credit losses was $160 million lower than expected. The lower provision was a result of better than anticipated economic conditions, the resilience of Canadian businesses and thorough monitoring of our loan portfolio.

As for our investment activities, BDC Subordinate Financing's net income was $6 million higher than planned and BDC Venture Capital's loss was $11 million lower than anticipated. These results are explained by lower depreciation in the fair value of the investment portfolios.

BDC Consulting's loss was $2.4 million lower than expected, as a result of higher revenue.

Fiscal 2010 results also included $39.1 million in net losses on financial instruments, compared with the $10 million in net losses anticipated.

BDC FINANCING

BDC Financing offers entrepreneurs secured and unsecured term loans and specialized services tailored to support them as they create and grow their businesses; develop and expand their markets; invest in intangible assets, such as information technology; buy equipment; or transfer their companies to a new generation of owners.

BUSINESS CREDIT AVAILABILITY PROGRAM

The shareholder initiated this new program as part of Canada's Economic Action Plan to support creditworthy business clients who would otherwise have insufficient access to credit. By participating in it, BDC, Export Development Canada and private sector banks were to provide, at market prices, up to $5 billion in additional loans and other forms of credit support and enhancement. This goal has been met and surpassed.

Through BCAP, BDC provided $2.8 billion in vital support to Canadian businesses between February 2009 and March 2010. In addition to its core financing offerings, BDC launched a number of other initiatives under BCAP:

- a new operating line of credit guarantee program to support businesses with reduced access to working capital by sharing the risk with other lenders;
- purchasing participation in commercial mortgages;
- new products for working capital and fixed-asset support; and
- a new purchase order financing product that provides short-term working capital to auto parts manufacturers, in response to difficulties in that industry.

In fiscal 2010, BDC also participated in lending syndicates with other financial institutions, to respond to a reduction in the number of participants in this market segment. In addition, we continued to support higher risk transactions and also allowed clients experiencing liquidity problems to postpone their principal payments.

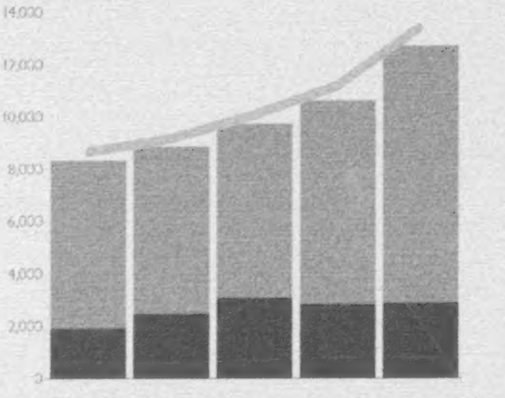
FINANCING PORTFOLIO

BDC Financing's closing portfolio, before allowance for credit losses, rose from $11.1 billion in fiscal 2009 to $13.3 billion in fiscal 2010. This was a significant increase of $2.2 billion, or 19.7%. The strong growth of the portfolio was testimony to our commitment to support Canadian businesses in difficult economic times.

The most important factor contributing to this growth was the level of disbursements. We disbursed $3.9 billion in fiscal 2010, $1.1 billion more than in fiscal 2009. This increase was mainly the result of our participation in BCAP.

Performing Portfolio

for the years ended March 31 ($ in millions)



	2006	2007	2008	2009	**2010**
■ Fixed-rate performing portfolio					
	1,902	2,464	3,069	2,824	**2,861**
▨ Floating-rate performing portfolio					
	6,426	6,378	6,652	7,777	**9,829**
■▨ Total performing portfolio					
	8,328	8,842	9,721	10,601	**12,690**
▨ Total BDC Financing portfolio					
	8,627	9,128	10,014	11,117	**13,311**

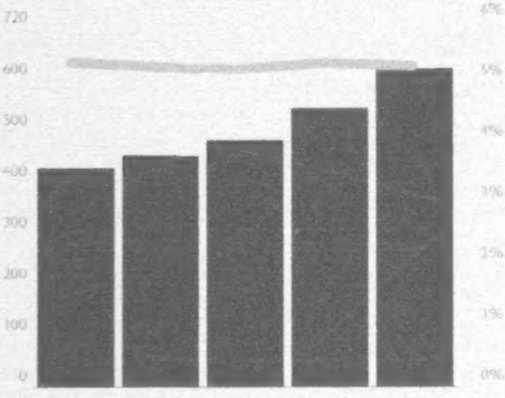
The closing portfolio comprises $12.7 billion in performing loans and $0.6 billion in impaired loans. We borrow funds on the Canadian and global money markets, and offer clients floating and fixed interest rates. Since April 2008, we have borrowed our funds from Her Majesty in Right of Canada, acting through the Minister of Finance. The rate we charge our clients takes into consideration the cost of funds, plus factors to cover operating expenses and the risk of each loan. As seen in the Performing Portfolio graph, a higher proportion of the performing portfolio in fiscal 2010—77.5%, compared with 73.4% in fiscal 2009—was composed of floating-rate loans.

NET INTEREST INCOME

Net interest income of $617.0 million reflected interest income less interest expense on borrowings. That compared with $540.1 million of net interest income recorded in fiscal 2009. The increase of $76.9 million was the result of significant portfolio growth. However, net interest income margin expressed as a percentage of the average portfolio decreased by 5 basis points.

BDC Financing Net Interest Income

for the years ended March 31 ($ in millions)

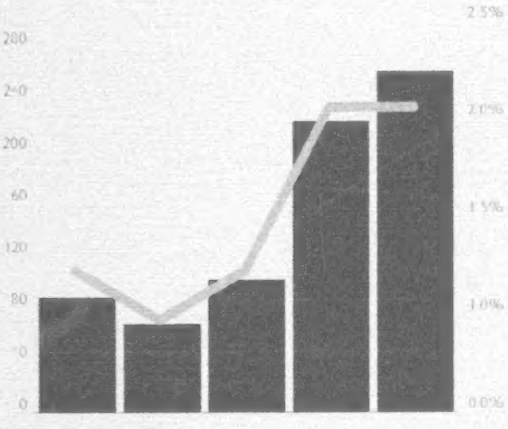


2006	2007	2008	2009	**2010**
■ Net interest income				
422.5	448.5	479.1	540.1	**617.0**
▨ As a % of average loan portfolio				
5.11%	5.04%	5.02%	5.11%	**5.06%**

PROVISION FOR CREDIT LOSSES

Provision for Credit Losses

for the years ended March 31 ($ in millions)



2006	2007	2008	2009	**2010**
■ Provision for credit losses				
88.1	67.9	101.5	222.8	**260.7**
▨ As a % of average loan portfolio				
1.1%	0.8%	1.1%	2.1%	**2.1%**

BDC takes more risk. This is evidenced by the two-fold increase in our impaired portfolio and in the provision for credit losses as a percentage of our average portfolio, over the last two years.

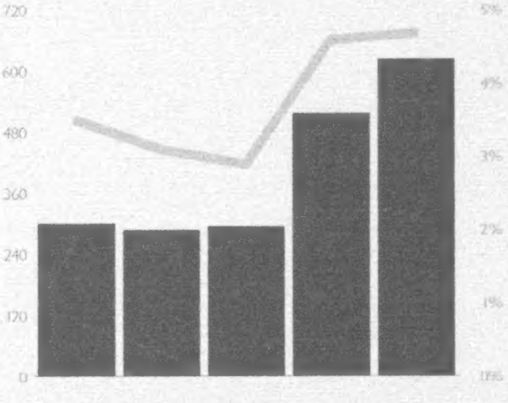
BDC Financing recorded a specific provision for credit losses of $180.9 million and a general provision of $79.8 million in fiscal 2010. The total provision of $260.7 million represented 2.1% of the average loan portfolio, the same level as in fiscal 2009. In dollars, the specific provision was $17.9 million lower than last year, while the general provision was $55.7 million higher. The increase in the general provision expense was a result of the significant portfolio growth of $2.2 billion in fiscal 2010.

When loans default, we classify them as impaired and record an amount equal to the net exposure as a specific provision. When the client shows sign of improvement and we reasonably expect to collect on the loan, we upgrade the impaired loan to performing and reverse the specific provision. While the downgrading rate remained constant at 4.8% of the performing opening portfolio, the upgrading rate as a percentage of the impaired opening portfolio improved from 11.8% to 24.1% in fiscal 2010. This increase was a result of an improvement in market conditions toward the end of the year.

A dedicated BDC team closely manages the impaired portfolio, which reached $621.0 million and represented 4.7% of the total portfolio at March 31, 2010, compared with 4.6% in fiscal 2009.

Impaired Financing Portfolio

as at March 31 ($ in millions)

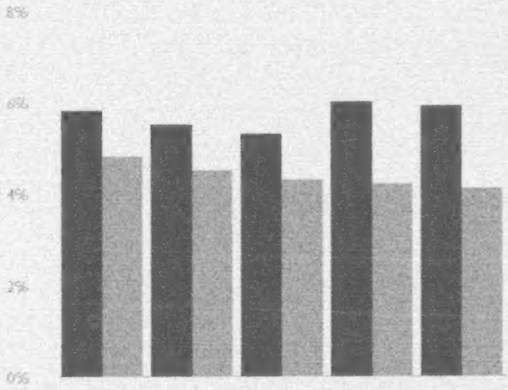


2006	2007	2008	2009	**2010**
■ Impaired portfolio				
299	286	293	516	**621**
▨ Impaired portfolio as a % of total loan portfolio				
3.5%	3.1%	2.9%	4.6%	**4.7%**

BDC maintains the cumulative allowance for credit losses at a level considered adequate to absorb the credit losses in our portfolio. As of March 31, 2010, the allowance totalled $785.4 million, compared with $665.0 million a year ago. The total allowance represented 5.9% of the loan portfolio outstanding at March 31, 2010, compared with 6.0% at March 31, 2009.

Allowance for Credit Losses

as at March 31 (percentage)



	2006	2007	2008	2009	**2010**
■ Total allowance as a % of loan portfolio	5.8	5.5	5.3	6.0	**5.9**
▨ General allowance as a % of performing portfolio	4.8	4.5	4.3	4.2	**4.1**

The total allowance of $785.4 million at March 31, 2010, included a specific allowance of $260.9 million and a general allowance of $524.5 million. The general allowance represents management's best estimate of probable impairment in the existing portfolio when we cannot yet determine a specific allowance. The general allowance represented 4.1% of the performing portfolio, compared with 4.2% in fiscal 2009.

BDC continues to help viable companies while protecting its assets when companies are no longer creditworthy. Credit risk management is discussed further in Note 19 to the Consolidated Financial Statements.

OPERATING AND ADMINISTRATIVE EXPENSES

Operating and administrative expenses were $287.1 million in fiscal 2010, compared with $247.7 million last year, reflecting the need to support our portfolio growth.

INCOME FROM BDC FINANCING

BDC Financing income before net gains or losses on financial instruments was $115.3 million in fiscal 2010, compared with $105.3 million in fiscal 2009, an increase of $10.0 million. This increase was due to a $87.2-million increase in net interest and fee income, explained by significant portfolio growth, but was partially offset by (i) an increase of $37.8 million in the provision for credit losses; and (ii) a $39.4-million increase in operating and administrative expenses to allow BDC to support portfolio growth and invest in process improvements.

PERFORMANCE AGAINST OBJECTIVE

The $13.3-billion portfolio was significantly larger than the corporate plan objective of $12.3 billion. This higher than expected growth was mainly due to higher than anticipated disbursements, which resulted from increased demand for our financing services in difficult economic conditions. Payments were also lower than planned, because we extended repayment terms to clients to increase their working capital when liquidity in the market was low.

Excluding net losses on financial instruments, BDC Financing net income was $191 million higher than planned. This positive result was mainly explained by a lower than expected provision for credit losses.

The provision for credit losses of $260.7 million was $160 million lower than the corporate plan objective. During the planning period, BDC had anticipated a more severe deterioration of the portfolio than we experienced in fiscal 2010, due to the decline in the Canadian economy at that time.

In addition, net interest and fee income was $24 million higher than the $639 million anticipated, due to higher portfolio growth. While business growth exceeded our corporate plan objectives, total operating and administrative expenses were $7 million lower than the corporate plan target.

BDC SUBORDINATE FINANCING

As a firm matures, BDC Subordinate Financing is there to ensure it has sufficient capital. We support high-potential, growth-oriented firms by providing flexible quasi-equity and equity-type financing for entrepreneurs at the smaller end of the mezzanine financing spectrum. For BDC Subordinate Financing transactions, working capital remains the most important market need, particularly liquidity for growth and geographic expansion.

Since fiscal 2004, BDC's subordinate financing activity has taken place via joint ventures with the Caisse de dépôt et placement du Québec (the Caisse), starting with a $300-million (BDC: $150 million) commitment with AlterInvest Fund LP, followed by a $330-million (BDC: $165 million) commitment with AlterInvest II Fund LP. BDC acts as the general partner of these funds and receives management fees. In November 2009, AlterInvest II Fund LP reached its authorized capacity and BDC began to fully fund new subordinate financing transactions through its wholly owned investment subsidiary, BDC Capital Inc.

BDC has measured subordinate financing investments at fair value since fiscal 2006.

SUBORDINATE FINANCING PORTFOLIO

The BDC Subordinate Financing portfolio increased by 24.6% from a year ago and reached $193.2 million as at

March 31, 2010. This increase is due to disbursements fully funded by BDC during the latter part of the fiscal year. Portfolio assets under BDC management increased from $285.9 million to $338.3 million.

INCOME FROM SUBORDINATE FINANCING

BDC Subordinate Financing reported income of $10.2 million for the year, $3.4 million higher than the fiscal 2009 figure—an excellent result.

Net interest income of $15.6 million was higher than the fiscal 2009 result of $14.7 million, due to portfolio growth. Realized gains and losses on investments and other income totalled $7.5 million in fiscal 2010, $0.2 million higher than last year. The change in unrealized appreciation of $1.5 million in fiscal 2010, compared with the $3.4-million depreciation last year, was the main reason net income rose. The change in unrealized appreciation of investments included the following:

> a $2.3-million net fair value depreciation of the portfolio ($9.4 million in 2009); and

> a reversal of net fair value depreciation due to realized income totalling $3.8 million ($6.0 million in 2009).

Improvement in the net fair value depreciation was mainly attributable to the removal of the market liquidity premium taken in fiscal 2009 because of the liquidity crisis.

Operating and administrative expenses increased by $2.6 million from last year.

PERFORMANCE AGAINST OBJECTIVE

Income from BDC Subordinate Financing of $10.2 million in fiscal 2010 was above the corporate plan objective of $4.4 million. This difference was mainly due to the change in unrealized appreciation of $1.5 million, compared with the $5.2-million depreciation that the plan anticipated.

BDC VENTURE CAPITAL

BDC Venture Capital invests in high-potential Canadian technology firms and helps cultivate them into globally focused, growth-oriented companies. These investments are essential to achieve our shareholder's goal of deriving economic benefit from its investments in R&D.

BDC's specialized investments cover every stage of a venture-funded company's development, from pre-seed through expansion across multiple sectors. We primarily focus on supporting Canadian technology companies that have the highest potential to succeed, regardless of their stage of development.

BDC Venture Capital has a substantial investment portfolio, consisting of a solid base of promising companies that will have a greater need for capital as they continue to grow and mature. In fiscal 2010, BDC received capital injections totalling $250 million to ensure the development of venture capital funds and businesses. The shareholder has also committed an additional $225 million ($125 million for fiscal 2011 and $100 million for fiscal 2012) to help BDC sustain its venture capital activities.

BDC invests in companies directly or via investment funds. We hold our venture capital assets through our wholly owned subsidiary, BDC Capital Inc., and have been measuring them at fair value since fiscal 2006.

VENTURE CAPITAL PORTFOLIO

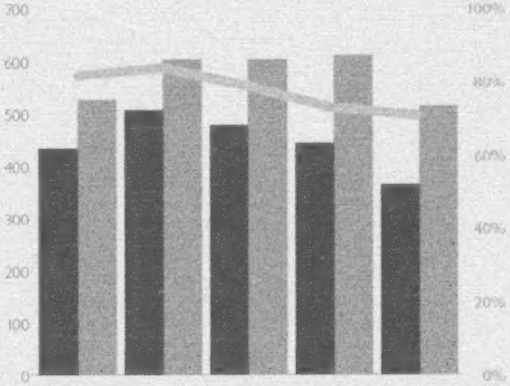
The fair value of the portfolio decreased from $441.6 million in fiscal 2009 to $362.3 million at March 31, 2010. Of the latter amount, $302.8 million related to direct investments in companies and $59.5 million to investments in 20 funds. The decrease in fair value was due to difficult market conditions and the depreciation of the U.S. dollar.

We disbursed $58.2 million in fiscal 2010, compared with $87.2 million last year. Activity decreased because there were fewer opportunities in the market, due to the difficulty both individual companies and venture capital investment funds experienced in raising capital.

BDC Venture Capital achieves market impact in partnership with industry co-investors via investment syndicates. There is increasing difficulty in finding co-investment partners to fully capitalize Canadian technology companies so that they can succeed and compete globally. With only a finite amount of capital, many investors are facing much higher than expected capital demands from existing investees.

Valuation of BDC Venture Capital: Total Investments

as at March 31 ($ in millions)



	2006	2007	2008	2009	**2010**
■ Fair value	431.4	505.1	476.0	441.6	**362.3**
▨ Cost	525.6	601.2	601.4	608.7	**512.4**
▨ Fair value as % of cost	82%	84%	79%	73%	**71%**

LOSS FROM VENTURE CAPITAL

Venture capital market conditions remained extremely difficult in fiscal 2010. It was hard for companies to raise capital; buyers dictated exit prices because of economic conditions; and initial public offerings were rare. These market conditions, combined with the highly risky and illiquid nature of venture capital investments, affected our results.

In fiscal 2010, BDC Venture Capital recorded a loss of $74.1 million, compared to a $106.3-million loss in fiscal 2009. The improvement was due to significantly lower net fair value depreciation of the portfolio: $59.4 million in fiscal 2010, compared with $140.7 million last year.

Once again, divestitures were low in fiscal 2010. Net realized losses on investments were $107.8 million, compared with $25.2 million in fiscal 2009. Fiscal 2010 results included $27.1 million in losses from sales and $80.6 million in write-offs. These net realized losses had no impact on net results, as fair value depreciation taken on these investments in prior years was reversed in fiscal 2010 (see detail below).

BDC recorded $33.2 million in unrealized foreign exchange losses on investments due to foreign exchange fluctuations on its U.S. dollar investments. BDC monitors U.S. currency fluctuations and uses foreign exchange contracts to partially hedge U.S. dollar investments. As a result, $26.0 million in net gains on foreign exchange contracts partly offset losses recognized due to U.S. dollar depreciation.

BDC recorded a change in unrealized appreciation of $50.2 million, wich included the following:

- > $59.4 million in net fair value depreciation of the portfolio; and
- > a reversal of net fair value depreciation on divested investments and write-offs totalling $109.6 million.

Operating and administrative expenses were $12.2 million, a $1.1-million decrease from the $13.3 million in fiscal 2009. This was mainly due to lower salaries and benefits, as well as lower other operating and administrative expenses.

PERFORMANCE AGAINST OBJECTIVE

BDC Venture Capital's loss of $74.1 million was lower than the $85-million loss anticipated in the corporate plan, largely due to the lower net fair value depreciation of the portfolio. Operating and administrative expenses were also $2.8 million lower than planned.

BDC CONSULTING

BDC Consulting offers customized business consulting services at a cost entrepreneurs can afford. We strive to provide Canadian entrepreneurs with the support they need to grow their business and enhance their competitiveness in local and global markets. Doing so is especially important during recessions.

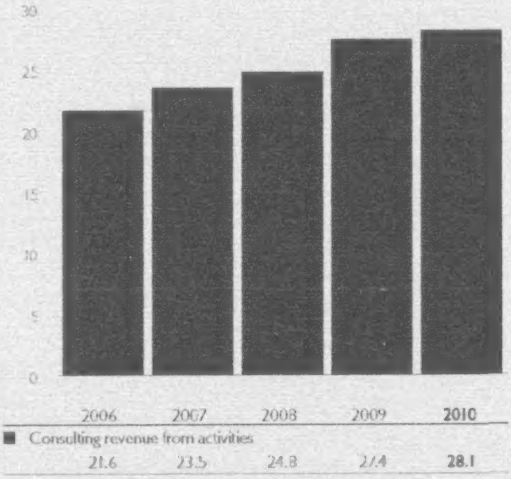
LOSS FROM CONSULTING

BDC generates revenues from its consulting mandates. BDC Consulting revenues reached a record high of $28.1 million in fiscal 2010, a 2.5% increase over fiscal 2009.

BDC started 2,504 consulting mandates in fiscal 2010, fewer than last year's result of 2,720 mandates, but higher than our objective of 2,400 mandates.

BDC Consulting Revenue

for the years ended March 31 ($ in millions)



The $4.6-million loss for BDC Consulting was $1.7 million higher than the loss last year. This was mainly due to higher operating and administrative expenses resulting from higher pension expenses and other operating costs.

PERFORMANCE AGAINST OBJECTIVE

Revenues of $28.1 million were $4.1 million better than the corporate plan objective. At $4.6 million, the net loss was 34% better than the corporate plan objective of a loss of $7.0 million.

BDC SECURITIZATION

The Government of Canada created the CSCF in its January 2009 budget as part of Canada's Economic Action Plan. The facility aimed to support companies financing auto and equipment leases and loans by purchasing Canadian AAA-rated term securities backed by loans and leases on vehicles and equipment, as well as dealer floor plan loans. The purpose of the CSCF was to increase liquidity in the market and to augment investor confidence in the above types of asset-backed securities. BDC designed and managed the CSCF, which was available until March 31, 2010.

SECURITIZATION PORTFOLIO

Under the CSCF, we authorized a total of $3.7 billion in investments, of which $3.4 billion was disbursed and $0.1 billion was repaid in fiscal 2010. We recorded the portfolio at fair value; it stood at $3.3 billion as of March 31, 2010.

LOSS FROM SECURITIZATION

BDC Securitization recorded a net loss of $1.6 million, compared with a net loss of $1.0 million in fiscal 2009. Last year's loss was related to start-up costs reclassified from BDC Financing to BDC Securitization. Fiscal 2010 net loss comprised net interest and fee income of $9.6 million, offset by $3.7 million in operating and administrative expenses and a $7.5-million loss on initial recognition.

BDC recorded a loss on the purchase of its asset-backed securities, as Canadian GAAP require the use of fair value accounting on initial recognition of financial assets. This loss was a result of a difference between the yield that BDC was willing to accept on its investments and the market demanded yield for similar securities at time of purchase. We are amortizing this loss in interest income over the life of the instrument, so it will reverse itself completely by the time the securities mature. In fiscal 2010, we recognized income of $0.8 million as a result of the loss amortization.

PERFORMANCE AGAINST OBJECTIVE

BDC anticipated a significant loss of $780 million in fiscal 2010 as a result of an estimated loss on initial recognition of $1 billion on anticipated disbursements of $12 billion.

During the planning period, we expected that the loss on initial recognition would be much higher and subject to significant uncertainty because of market conditions. Due to improvements in global financial markets, the difference between BDC pricing and market rates was much smaller than expected and demand was lower than anticipated.

NET GAINS OR LOSSES ON FINANCIAL INSTRUMENTS

Net gains or losses on financial instruments are mainly related to BDC's structured notes and their associated derivatives. BDC has issued a number of structured notes for which interest and/or principal at maturity is linked to fluctuations in equity indices, currency rates, swap rates and other market references. BDC uses derivative financial instruments as an economic hedge for its structured notes.

Net gains or losses on financial instruments include a realized and an unrealized portion. The realized gains or losses are incurred when financial instruments are repurchased prior to maturity. The unrealized portion represents the change in fair value of structured notes and derivative instruments. The net unrealized gains or losses are mainly due to the gap between the government agency yield curve used to determine the fair value of our structured notes and the swap yield curve used to determine the fair value of our derivative instruments. The net unrealized gains or losses also fluctuate because of counterparty credit risk. These unrealized gains or losses will reverse themselves completely at maturity.

During fiscal 2010, BDC recorded net losses on financial instruments of $39.1 million, which included net realized losses of $5.8 million and net unrealized losses of $33.3 million. This compared with net gains on financial instruments of $88.7 million in fiscal 2009, comprising net realized gains of $29.0 million and net unrealized gains of $59.7 million.

BALANCE SHEET

Total assets of $17.7 billion were up by $5.6 billion, or 46%, from a year ago, largely due to the solid growth in the financing portfolio and the purchase of asset-backed securities.

BDC holds cash and cash equivalents in accordance with our liquidity and investment management policy. Our liquidities, which ensure funds are available to meet our contractual cash outflows, totalled $1,013.8 million as at March 31, 2010, compared with $604.3 million in fiscal 2009.

BDC's total portfolio reached $16.4 billion as at March 31, 2010, compared with $11.0 billion a year ago. In fiscal 2010, BDC purchased asset-backed securities under the CSCF. This new portfolio stood at $3.3 billion as at March 31, 2010, and comprised Canadian AAA-rated term securities backed by loans and leases on vehicles and equipment, as well as dealer floorplan loans.

At $12.5 billion, the loan portfolio, net of allowance for credit losses, represented the largest asset on the balance sheet ($13.3 billion in gross portfolio and a $0.8-billion allowance for credit losses). This portfolio increased by $2.1 billion, or close to 20%, from fiscal 2009 as a result of high demand for BDC Financing services.

As for BDC's investment portfolio, the subordinate financing portfolio stood at $193.2 million, representing growth of close to 25% from a year ago. The venture capital portfolio was $362.3 million, a decrease of $79.3 million compared with last year, reflecting difficult market conditions and the depreciation of the U.S. dollar.

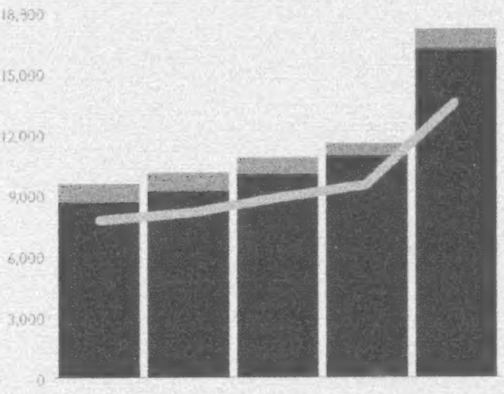
Property and equipment assets of $16.9 million and intangible assets of $19.4 million included $119.0 million of cost, net of $82.7 million of accumulated amortization. In fiscal 2010, BDC performed a detailed review in order to write off obsolete assets. This review resulted in a reduction of cost and accumulated amortization, but had no impact on results as assets written off were fully depreciated.

Derivative assets of $85.8 million and derivative liabilities of $73.2 million reflected the fair value of derivative financial instruments as at March 31, 2010. Net derivative fair value decreased because BDC held fewer derivative financial instruments in fiscal 2010.

Accrued benefit pension assets of $145.4 million and accrued benefit pension liabilities of $113.1 million were slightly higher than last year.

Borrowings

as at March 31 ($ in millions)



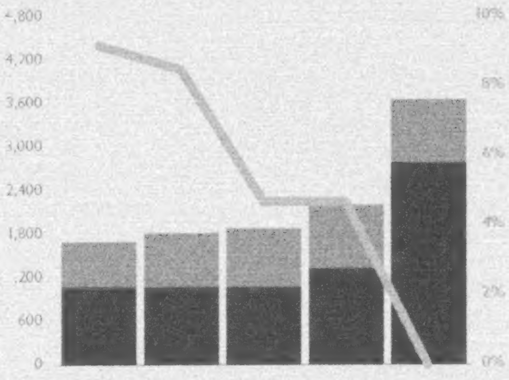
	2006	2007	2008	2009	**2010**
▨ Liquid assets	930	929	817	604	**1,014**
■ Portfolios*	8,705	9,276	10,114	11,049	**16,356**
▨ Borrowings	7,876	8,228	8,986	9,629	**13,724**

* Includes net portfolios, investments and asset-backed securities

As at March 31, 2010, we funded our portfolios and liquidities with borrowings of $13.7 billion and total equity of $3.6 billion. The mix between short-term and long-term notes changed significantly in fiscal 2010, as we now fund most of the floating-rate loan portfolio with short-term notes; in fiscal 2009, we used long-term floating-rate notes with interest rates that reset monthly.

Total Shareholder's Equity

as at March 31 ($ in millions)



	2006	2007	2008	2009	**2010**
■ Paid-in capital*	1,066.2	1,066.2	1,066.2	1,316.2	**2,772.2**
▨ Retained earnings	625.1	741.5	804.0	878.1	**869.8**
▨ Accumulated other comprehensive income (loss)	–	–	(2.8)	(4.7)	**1.0**
■▨ Total shareholder's equity	1,691.3	1,807.7	1,867.4	2,189.6	**3,643.0**
▨ Return on common equity	9.2%	8.5%	4.7%	4.7%	**0.0%**

* Includes $27.8 million of contributed surplus.

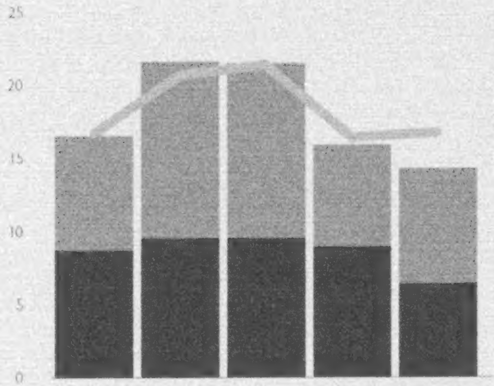
Equity consisted of $2.8 billion in paid-in capital, $869.8 million in retained earnings and $1.0 million in accumulated other comprehensive income. Paid-in capital increased by $1.456 billion as we received capital injections from our shareholder. Retained earnings decreased by $8.3 million in fiscal 2010 to $869.8 million, due to consolidated net income of $6.1 million and declared dividends of $14.3 million. Return on common equity (ROE) was nil, compared with 4.7% in fiscal 2009. The drop in ROE was due mainly to a smaller profit of $6.1 million.

DIVIDENDS

BDC pays dividends to its sole shareholder, the Government of Canada. We declared dividends of $14.3 million in fiscal 2010. Of this amount, $7.9 million related to common shares based on the fiscal 2009 results; the remainder related to preferred shares. We paid a total of $16.8 million in dividends in fiscal 2010.

Dividends

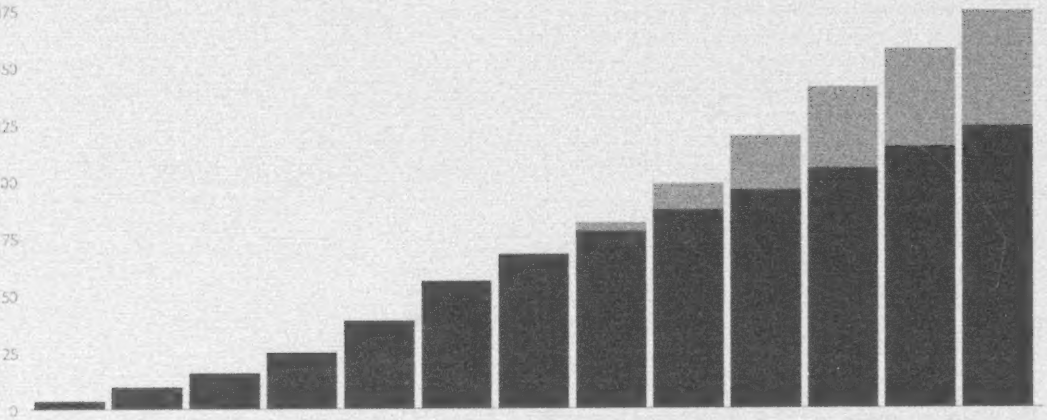
for the years ended March 31 ($ in millions)



	2006	2007	2008	2009	**2010**
■ Preferred dividends declared	8.7	9.5	9.5	8.9	**6.4**
▨ Common dividends declared	7.8	12.1	12.0	7.0	**7.9**
■▨ Total dividends declared	16.5	21.6	21.5	15.9	**14.3**
▨ Total dividends paid	16.8	20.8	21.5	16.5	**16.8**

Cumulative Dividends Paid

as at March 31 ($ in millions)



	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	**2010**
■ Preferred dividends paid	3.4	9.4	15.4	24.3	38.2	55.7	67.1	77.3	86.4	95.1	104.5	114.0	**122.9**
▨ Common dividends paid	–	–	–	–	–	–	0.4	3.8	11.5	23.6	35.7	42.7	**50.6**
■▨ Total dividends paid	3.4	9.4	15.4	24.3	38.2	55.7	67.5	81.1	97.9	118.7	140.2	156.7	**173.5**

BDC will make an additional payment of $6.4 million in June 2010 (preferred dividends declared in fiscal 2010).

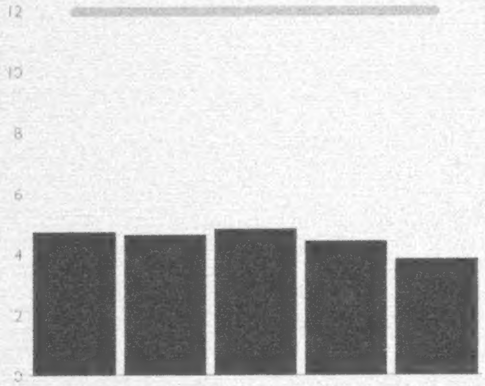
CAPITAL MANAGEMENT

STATUTORY LIMITATIONS

BDC's debt-to-equity ratio cannot exceed 12:1. On March 31, 2010, it was at 3.8:1, compared with 4.4:1 at March 31, 2009. In addition, the paid-in capital of BDC, the contributed surplus and any proceeds that have been prescribed as equity must not exceed $3.0 billion. As at March 31, 2010, these amounts totalled $2.772 billion, an increase of $1.456 billion from fiscal 2009 as a result of capital injections.

Debt-to-Equity Ratio

as at March 31



	2006	2007	2008	2009	**2010**
■ Actual	4.7	4.6	4.8	4.4	**3.8**
▨ Statutory limit	12.0	12.0	12.0	12.0	**12.0**

CAPITAL ADEQUACY

Treasury Board of Canada, Secretariat, provides BDC with capital adequacy ratios. We must maintain capital and loss provisions sufficient to ensure that BDC can withstand unfavourable economic circumstances without requiring additional government funding.

Adequate capital ratios reflect the relative risk of BDC's assets. The required capital is at least 5% for asset-backed securities; 10% of net value for term loans, net of allowance for credit losses; 25% for quasi-equity loans, including subordinate financing; and 100% for venture capital investments. Capital adequacy ratios were also established for letters of credit and loan guarantees to reflect the relative risk of these contingent liabilities. BDC operated in accordance with its capital adequacy guidelines as of March 31, 2010 (see page 80).

While BDC is not required to meet the requirements of the Basel II Capital Accord, we use an economic capital model and a supporting risk rating system that comply with Basel requirements. The capital model looks beyond market, credit and operational risks to business risks and maturity risks.

PENSION AND OTHER EMPLOYEE FUTURE BENEFITS

BDC's pension plan, supplemental plans and other employee future benefits are based on actuarial valuations and assumptions detailed in Note 24 to the Consolidated Financial Statements. Several factors, particularly the discount rate used to value future liabilities, influence the calculation of those obligations. For accounting measurement purposes, the discount rate used at each measurement date is based on market interest rates for long-term, high-quality debt instruments. BDC's employer contributions to the registered pension plan totalled $31.0 million in fiscal 2010, compared with $22.5 million in fiscal 2009. As of December 2009, the registered pension plan was in a deficit situation for funding purposes. We will contribute more to our pension plans in future years to manage our funded status unless interest rates increase to eliminate the actuarial deficit. We fund our registered pension plan in accordance with actuarially determined amounts required to satisfy employee benefit obligations under current federal pension regulations. In fiscal 2006, BDC also chose to fund the supplemental plans. BDC contributed $4.6 million to these plans in fiscal 2010, compared with $9.8 million in fiscal 2009. Other employee future benefits plans continued to run on an unfunded basis.

OUTLOOK FOR 2011

BDC's profitability is expected to improve in fiscal 2011 to $70 million. BDC is forecasting dividend payments of $9 million in 2011.

BDC FINANCING

As business credit begins to expand, we expect net acceptances to move toward a more normal volume yet remain higher than volumes in fiscal 2008 and 2009. The average net acceptance should also decrease in size as liquidity returns to the market. BDC expects a decrease in acceptances of 22% in fiscal 2011.

While BDC will adjust its complementary role as conditions change, several factors will drive growth: gaps left by some departed market players who are unlikely to return to the Canadian market in the short term; partnerships with other financial institutions; and gaps in certain high-risk market segments.

The portfolio is expected to grow more slowly in 2011. BDC took on more risk during the recession, which will ultimately result in write-offs and, consequently, slow portfolio growth. At the same time, the decreased loan activity we anticipate will lead to lower disbursements, and we expect prepayments to increase as financial institutions return to the market. As a result, we expect the portfolio will grow from $13.3 billion to $14.3 billion at the end of fiscal 2011.

We expect BDC Financing to generate a net income of $74 million in fiscal 2011, net of $5 million in net unrealized losses on financial instruments. Net interest and fee income is expected to increase to $707 million in fiscal 2011. BDC projects the provision for credit losses will be 2.2% of the average outstanding financing portfolio (compared with 2.1% in fiscal 2010), representing a $303-million provision for credit losses. We expect operating and administrative expenses to increase to $325 million, as a result of higher pension costs and investments in processes to add value for our clients.

BDC SUBORDINATE FINANCING

We expect our subordinate financing portfolio to increase from $193.2 million to $276 million in fiscal 2011, as we will fully fund all new investments. We expect to generate $10.4 million in income, in line with our results in fiscal 2010.

BDC VENTURE CAPITAL

Venture capital investing requires patient, long-term commitment. Over the last several years, difficult venture capital market conditions and the absence of exit opportunities have had a considerable impact on BDC Venture Capital's portfolio of direct and fund investments. Average holding periods to exit have increased, resulting in fewer divestitures and an increased need for capital to support portfolio companies. That is particularly true for BDC because it holds investments in many seed, start-up and early-stage companies.

Market data confirm that the performance of Canada's venture capital industry remains poor. At present, it is impossible to determine when market conditions will improve enough to permit profitable exits.

We remain committed to our shareholder's mandate to support commercialization in Canada, we will stay dedicated to investees with high potential to succeed, and we will support their ability to grow and compete in world markets. BDC's shareholder committed capital to BDC Venture Capital to ensure the development of new funds and new businesses, to support investments in regions severely affected by the economic downturn, and to sustain the growth of promising companies already in the portfolio. We received $250 million in fiscal 2010, and we expect an additional $125 million in fiscal 2011 and $100 million in fiscal 2012.

We anticipate an increase in authorizations in both direct and fund investments in fiscal 2011. BDC expects our direct investments portfolio to be valued at $355 million and our fund investments portfolio at $84 million in fiscal 2011, for a total portfolio of $439 million.

We expect BDC Venture Capital to generate a net loss of $70 million in fiscal 2011. However, we are acting to improve results and have already begun implementing changes. For example, we now use an innovative classification system to group the firms in our portfolio; these groupings will permit our venture capital experts to design customized support plans for those firms that we judge to have solid growth potential. We have also created a team dedicated to handling accounts judged unlikely to deliver expected results. Furthermore, we are tightening our due diligence processes and using a more selective approach to choose the best opportunities in each sector. Finally, we have launched a rigorous external review of our current practices. We expect the sum of these efforts will be an invigorated approach that will, over a full industry cycle, generate a profitable rate of return.

BDC CONSULTING

For fiscal 2011, BDC expects $28.5 million in consulting revenue and a loss of $8.0 million. The anticipated increase in loss is mainly due to investments in people, processes and technology, as well as an increase in pension costs.

BDC SECURITIZATION

We expect the CSCF program to report a net income of $64.4 million in fiscal 2011 and the fair value of the portfolio to be $3.279 billion.

BDC and our shareholder are also reviewing other ways in which BDC may support creditworthy lessors not capable of accessing the CSCF because of their small size, including participating in existing private sector initiatives to increase capital availability. The 2011 corporate plan objectives do not take into account any potential revenues or expenses related to new programs, as work to launch them in fiscal 2011 is underway. BDC will report on the results of these initiatives in our fiscal 2011 annual report. In addition, BDC will seek the approval of the shareholder to reallocate CSCF capital to these new programs.

5 ACCOUNTING AND CONTROL MATTERS

CRITICAL ACCOUNTING ESTIMATES

BDC's significant accounting policies are described in Note 2 to the Consolidated Financial Statements. Certain of these policies, as well as estimates made in applying such policies, are considered critical, as they require significant judgements by management. BDC has established control procedures, including formal representations and certification by senior officers, to ensure that accounting policies and estimates are reviewed and applied consistently from period to period. Critical accounting estimates include those related to the allowance for credit losses; the fair value of financial instruments, including venture capital and subordinate financing investments; and pension and other employee future benefits.

ALLOWANCE FOR CREDIT LOSSES

The allowance for credit losses is management's best estimate of probable credit-related losses in the financing portfolio. It comprises the specific allowance and the general allowance. Management determines the specific allowance by identifying and determining losses related to impaired loans, and determines the general allowance by assessing probable but unknown existing losses in the performing portfolio.

BDC determines the allowances based on quantitative and qualitative assessments that use current and historical credit information. The process requires BDC to make assumptions and judgements by carrying out certain activities, including the following: (i) assessing the impaired status and risk of a loan; (ii) estimating cash flows and collateral values; (iii) developing default rates and loss rates based on historical data; (iv) adjusting loss rates based on relevant experience; (v) assessing changes in credit strategies, processes and policies; (vi) assessing the current credit quality of the portfolio, based on credit quality trends and on portfolio characteristics and composition; and (vii) determining the current position of economic and credit cycles. Changes in these assumptions, or the use of other reasonable judgements, can materially affect the allowance level.

BDC maintains our allowance for credit losses at an adequate level, taking into consideration the relatively high risk profile of our financing activities. Note 2 to the Consolidated Financial Statements details the methods used to calculate the allowance for credit losses.

FAIR VALUE OF FINANCIAL INSTRUMENTS

Accounting standards require that all financial instruments be measured at fair value on initial recognition. In subsequent periods, they are measured at fair value, except for items classified as loans and receivables, or as other financial liabilities, which are measured at amortized cost. A more complete description of the accounting treatment of financial instruments is presented in Note 2 to the Consolidated Financial Statements.

Fair value is the price an unrelated knowledgeable party would pay or receive for a financial instrument. Published price quotations in an active market are the best evidence of fair value and, when they exist, BDC uses them to measure financial instruments. If a financial instrument's market is not public, BDC establishes its fair value with valuation techniques that use observable market inputs.

BDC also records investment companies' investments at fair value, using generally accepted accounting principles (GAAP). As most of these investments are in private companies, no readily available market value exists, so BDC must exercise judgement to determine their fair value. BDC derives its approach to measuring fair value from international guidelines. Due to the use of judgement, these fair values are not necessarily comparable among financial institutions and may not indicate net realizable value.

Note 2 to the Consolidated Financial Statements details the methods BDC uses to estimate the fair value of our investments.

PENSION AND OTHER EMPLOYEE FUTURE BENEFITS

BDC provides defined benefit pension plans and other benefit plans to eligible employees after they retire. These plans include a registered pension plan, supplemental pension plans and other plans, such as plans for post-retirement and post-employment benefits.

Actuaries calculate the pension and other employee future benefits expense using various assumptions that management determines. These assumptions include discount rates, expected rates of return on assets, health care cost trends, inflation rates, projected salary increases and other factors. Actual experience that differs from the actuarial assumptions used will affect the amount of benefit obligation, and the expense could increase or decrease significantly in future years.

Notes 2 and 24 to the Consolidated Financial Statements present the key assumptions used and describe their sensitivity.

ADOPTION OF NEW ACCOUNTING STANDARDS

GOODWILL AND INTANGIBLES

On April 1, 2009, BDC adopted the Canadian Institute of Chartered Accountants (CICA) new accounting requirement for goodwill and intangible assets, which clarifies the criteria that intangible assets—including internally developed intangible assets—must satisfy in order to be recognized. After adopting this standard, BDC reclassified the net carrying value of systems development costs from property and equipment to intangible assets. Implementing this new standard had no impact on net income.

FAIR VALUE DISCLOSURE

In June 2009, the CICA amended Section 3862, *Financial Instruments—Disclosures*, to align it with International Financial Reporting Standard 7, *Financial Instruments—Disclosures*. Section 3862 now requires companies to categorize all financial instruments measured at fair value into one of three hierarchy levels for disclosure purposes. Each level is based on the transparency of the inputs used to measure the fair value of assets and liabilities. Note 2 to the Consolidated Financial Statements describes the three hierarchy levels.

FUTURE CHANGES IN ACCOUNTING POLICIES

INTERNATIONAL FINANCIAL REPORTING STANDARDS

In February 2008, the Accounting Standards Board of the CICA announced that all publicly accountable Canadian enterprises must adopt International Financial Reporting Standards (IFRS) for fiscal years beginning on or after January 1, 2011. The change aims to help Canada contribute to the use of a single set of worldwide accounting standards, thereby easing and improving global capital flows, as well as improving financial reporting and transparency.

BDC must start using IFRS for our interim and annual financial statements beginning on April 1, 2011. These statements will also include comparative fiscal 2011 financial results restated to comply with IFRS.

Changeover Plan

The conversion to IFRS is a significant initiative. BDC's board of directors, Audit Committee and senior managers are dedicated to ensuring its proper implementation.

The IFRS conversion, which is progressing as planned, has been divided into three phases. BDC has completed phases I and II and is currently in phase III, which we expect to complete in fiscal 2011.

BDC'S IFRS CHANGEOVER PLAN

PHASE	KEY ACTIVITIES AND OUTPUTS
I: Diagnostics	> Organize overall project > Research financial information > Perform initial diagnosis > Assess process and system impacts > Outline work plan > Identify required resources and costs > Determine final deliverables > Start training
II: Project Setup, Component Evaluation and Issues Resolution	> Define roles and responsibilities > Create detailed project plan > Identify and train project teams > Communicate project strategy > Select IFRS champions > Prepare component evaluations > Identify changes to accounting principles, additional information and data requirements > Identify and resolve accounting treatment issues
III: Initial Conversion and Embedding	> Develop implementation strategy > Perform systems diagnosis > Design and build systems > Design new business processes > Implement change plan, by business line > Roll out process > Prepare IFRS adjustments > Post adjustments to reporting packages > Prepare IFRS financial statements

It is difficult to predict the IFRS that will be in effect at the end of BDC's first IFRS reporting period, as the International Accounting Standards Board (IASB) work plan anticipates the completion of several projects in calendar years 2010 and 2011. Therefore, although phase II of the IFRS conversion plan is complete, BDC continues to monitor the IASB's plans to issue standards. BDC also continues to provide communication and training to key employees and to monitor the impact of the transition on its business practices, systems and internal controls over financial reporting.

Impact of Adoption of IFRS

IFRS are premised on a conceptual framework similar to Canadian GAAP. However, significant differences exist in certain matters of recognition, measurement and disclosure. While BDC believes that applying IFRS will not have a material impact on cash flows, it will likely have a material impact on the Consolidated Financial Statements and regulatory capital. The following table outlines certain relevant accounting differences between Canadian GAAP and IFRS, and their possible impacts on BDC's Consolidated Financial Statements.

ACCOUNTING DIFFERENCES	COMPARISON OF ACCOUNTING TREATMENTS	POSSIBLE IMPACTS OF IFRS ON BDC
Employee benefits	Under IFRS 1, *First-Time Adoption*, BDC may elect to recognize all unamortized actuarial gains and losses through consolidated retained earnings at the date of transition to IFRS. If this option is not elected, BDC will have to restate, based on IFRS, the unamortized actuarial gains and losses since inception between a recognized portion and an unrecognized portion. This would be a complex and costly process.	BDC has elected to adopt the optional exemption on employee benefits. The exemption will allow BDC to fully recognize unamortized actuarial gains and losses at the date of transition to IFRS through opening retained earnings. This amount has been estimated at approximately $230 million and will reduce fiscal 2011 opening retained earnings by the same amount, negatively affecting BDC's regulatory capital requirements.
Consolidation of joint ventures	Under Canadian GAAP, BDC uses proportionate consolidation to consolidate its interests in joint ventures into its Consolidated Financial Statements. Under IFRS, the definition of a joint venture differs from that under Canadian GAAP. Under IFRS, a joint venture is a contractual arrangement whereby two or more parties (the venturers) undertake an economic activity that is subject to joint control. Joint control is defined as a contractually agreed sharing of control of an economic activity. If joint control does not exist, then the proportionate consolidation method cannot be used to consolidate the joint ventures into the venturers' Consolidated Financial Statements, and the level of control will determine which method of accounting should be used.	BDC has preliminarily concluded that since we have effective control over operating decisions and do not require unanimous consent of the parties sharing the control, the funds we currently account for as joint ventures under Canadian GAAP do not meet the definition of a joint venture under IFRS. Therefore, BDC must fully consolidate these funds into our Consolidated Financial Statements. This will increase assets, liabilities, revenues and expenses but will have no impact on BDC's net income or capital.
Subordinate financing and venture capital investments	Under Canadian GAAP, investment companies can use Accounting Guideline 18, *Investment Companies* (AcG-18), to account for their investments. AcG-18 permits investment companies to measure all of their investments at fair value and present them on this basis in the financial statements. These include investments that meet the definition of a subsidiary, joint ventures or investments over which the company exercises significant influence. In addition, when investment companies account for financial instruments at fair value in accordance with AcG-18, they do not have to classify these instruments under Section 3855, *Financial Instruments—Recognition and Measurement*. BDC currently applies AcG-18 to both subordinate financing and venture capital investments. Therefore, we carry these investments at fair value and do not classify them as financial instruments. Under IFRS, no AcG-18 equivalent exists. Investment companies must review their investments to determine the level of control they exercise. If control exists, companies must consolidate these investments into their financial statements. IFRS defines control as the power to govern the financial and operating policies of an entity so as to benefit from its activities. In addition, investment companies' investments are subject to financial instrument classification under IFRS. Consequently, IFRS provides three options for classifying BDC's subordinate financing investments and two for classifying BDC's venture capital investments: > amortized cost (option available for subordinate financing only); > fair value through equity (option available for both subordinate financing and venture capital); and > fair value through profit or loss (option available for both subordinate financing and venture capital).	BDC has preliminarily concluded that for a majority of these investments, we do not exercise control. For certain investments where BDC concluded we exercise control, we will consolidate them into our financial statements. Doing so will increase assets, liabilities, revenues and expenses but will have no impact on BDC's net income or capital. BDC has preliminarily concluded that we will classify both subordinate financing and venture capital investments under IFRS as fair value through profit or loss. This is consistent with the current method of accounting and, consequently, is not expected to have an impact on the consolidated financial results. This change will, however, affect disclosure requirements.

ACCOUNTING DIFFERENCES	COMPARISON OF ACCOUNTING TREATMENTS	POSSIBLE IMPACTS OF IFRS ON BDC
Shareholder's equity—reclassification of preferred shares	There is no specific guidance in Canadian GAAP regarding the presentation of preferred shares characterized by cumulative dividend payments based on a market rate that is independent of the entity's results. Under IFRS, if dividends on preferred shares are cumulative and based on a market rate, companies should reclassify these preferred shares as a debt obligation. In addition, companies should recognize dividends directly in the Consolidated Statement of Income as an interest expense. Preferred shares, classified as debt, become subject to financial instrument classification.	BDC has preliminarily concluded that we will reclassify preferred shares from equity to debt. We will classify the dividends paid on these shares as an interest expense, which will decrease net income but will not affect retained earnings. This reclassification will not affect regulatory capital since, under the *Business Development Bank of Canada Act*, BDC is to include preferred shares in the calculation of capital regardless of their financial statement classification. BDC has preliminarily concluded that we will classify preferred shares as financial liabilities at fair value through profit or loss. The impact on capital will depend on the fluctuations in fair value from one reporting period to another.
Related party disclosures	The definition of a related party under IFRS is broader than that under Canadian GAAP and includes key management. As a result, companies must disclose information regarding the compensation of key management—for the whole group, not for individuals—in their financial statements. Compensation consists mainly of salaries, variable compensation and post-employment benefits, such as pensions and post-employment medical and dental care.	This is a disclosure requirement only. Therefore, there is no expected impact on consolidated financial results.

These differences are based on existing IFRS standards as at March 31, 2010. The IASB plans to revise or replace existing IFRS standards that address some of these subjects. Anticipated changes may take effect before BDC's transition date. However, it is likely that most of the changes will take effect after BDC's transition date; as a result, the impact of adopting IFRS will extend beyond the transitional year. Because BDC does not know if, when and how much standards may change, we cannot determine the impact of these potential changes at this time.

CONTROLS AND PROCEDURES

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as well as appropriate disclosure controls and procedures.

Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and of financial statements prepared for external purposes in accordance with Canadian GAAP. However, because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements.

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management on a timely basis so that BDC can make appropriate decisions about public disclosure.

BDC has a certification regime to evaluate the design and effectiveness of our internal control over financial reporting and our disclosure controls and procedures. This certification regime is based on the Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

BDC has reached the following conclusion regarding the design and effectiveness of internal control over financial reporting:

As of March 31, 2010, certifying officers evaluated the design and effectiveness of internal control over financial reporting. Based on the results on the evaluation, they concluded that internal control over financial reporting is adequately designed and operates effectively to provide reasonable assurance about the reliability of financial reporting and of financial statements prepared in accordance with Canadian GAAP. During the year ended March 31, 2010, there was no change in internal control over financial reporting that has materially affected, or is reasonably likely to affect, internal control over financial reporting.

BDC has reached the following conclusion regarding the design and effectiveness of the disclosure controls and procedures:

As of March 31, 2010, certifying officers evaluated the design and effectiveness of disclosure controls and procedures. Based on the results of the evaluation, they concluded that disclosure controls and procedures are adequately designed and operate effectively to provide reasonable assurance that material information disclosed is recorded, processed, summarized and presented within the requested timeframe, and that it is communicated to management on a timely basis for decision-making purposes.

CONSOLIDATED FINANCIAL STATEMENTS

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MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL INFORMATION

The Consolidated Financial Statements of the Business Development Bank of Canada (BDC) were prepared and presented by management in accordance with Canadian generally accepted accounting principles. The information contained therein normally includes amounts requiring estimations that have been made based upon informed judgement as to the expected results of current transactions and events. The financial information presented elsewhere in this annual report is consistent with the Consolidated Financial Statements.

In discharging its responsibility for the integrity, fairness and quality of the Consolidated Financial Statements and for the accounting systems from which they are derived, management maintains a system of internal controls designed to provide reasonable assurance that transactions are authorized, assets are safeguarded and proper records are maintained. BDC has a certification regime to evaluate the design and effectiveness of its internal control over financial reporting and its disclosure controls and procedures. This certification regime is based on the Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Refer to the *Management Discussion & Analysis* section of the annual report for additional information (p. 56).

The system of internal controls is augmented by internal audit staff who conduct periodic reviews of different aspects of BDC's operations. In addition, the vice president and chief auditor, internal audit and independent auditors have full and free access to the Audit Committee of the board of directors, which is responsible for overseeing and reviewing management's internal control and reporting responsibilities. The board of directors, through the Audit Committee, which comprises directors who are not employees of BDC, is responsible for reviewing and approving the audited annual Consolidated Financial Statements.

BDC's independent auditors, Raymond Chabot Grant Thornton LLP, Chartered Accountants and the Auditor General of Canada, have audited BDC's Consolidated Financial Statements and their report indicates the scope of their audit and their opinion on the Consolidated Financial Statements.

Jean-René Halde
President and Chief Executive Officer

Paul Buron, CA
Executive Vice President
and Chief Financial Officer

Montreal, Canada
May 21, 2010

AUDITORS' REPORT

To the Minister of Industry,

We have audited the consolidated balance sheet of the Business Development Bank of Canada as at March 31, 2010 and the consolidated statements of income, comprehensive income, changes in shareholder's equity and cash flows for the year then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Bank as at March 31, 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act*, we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the Bank and of its wholly owned subsidiary that have come to our notice during our audit of the consolidated financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Business Development Bank of Canada Act*, the charter and by-laws of the Bank and its wholly owned subsidiary and the directive issued pursuant to Section 89 of the *Financial Administration Act*.

Sheila Fraser

Sheila Fraser, FCA auditor
Auditor General of Canada

Montréal, Canada
May 21, 2010

Raymond Chabot
Grant Thornton LLP[1]

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[1] Chartered accountant auditor permit no. 6981

CONSOLIDATED BALANCE SHEET

As at March 31 ($ in thousands)

	2010	2009
Assets		
Cash and cash equivalents (Note 4)	**1,013,757**	552,373
Securities (Note 5)	–	51,897
	1,013,757	604,270
Asset-backed securities (Note 6)	**3,274,974**	–
Loans, net of allowance for credit losses (Note 7)	**12,525,521**	10,452,173
Subordinate financing investments (Note 8)	**193,203**	155,070
Venture capital investments (Note 9)	**362,270**	441,631
	16,355,968	11,048,874
Property and equipment, net of accumulated amortization (Note 10)	**16,944**	15,378
Intangible assets, net of accumulated amortization (Note 11)	**19,406**	8,814
Derivative assets (Note 20)	**85,779**	199,488
Accrued benefit asset (Note 24)	**145,434**	136,119
Other assets (Note 12)	**42,639**	77,968
	310,202	437,767
Total assets	**17,679,927**	12,090,911
Liabilities and shareholder's equity		
Accounts payable and accrued liabilities	**71,640**	62,443
Accrued interest on borrowings	**11,893**	16,971
	83,533	79,414
Borrowings (Note 13)		
Short-term notes	**5,557,862**	1,984,001
Long-term notes	**8,166,357**	7,644,992
	13,724,219	9,628,993
Derivative liabilities (Note 20)	**73,233**	51,677
Accrued benefit liability (Note 24)	**113,059**	109,935
Other liabilities (Note 14)	**42,867**	31,328
	229,159	192,940
Shareholder's equity		
Share capital (Note 15)	**2,744,400**	1,288,400
Contributed surplus	**27,778**	27,778
Retained earnings	**869,849**	878,107
Accumulated other comprehensive income (loss)	**989**	(4,721)
	3,643,016	2,189,564
Total liabilities and shareholder's equity	**17,679,927**	12,090,911

Guarantees and contingent liabilities (Note 22)
Commitments (Note 23)

The accompanying Notes to the Consolidated Financial Statements are an integral part of these statements.

Approved by the board:

S.E. Bracken-Horrocks

Stan Bracken-Horrocks

Director
Chairperson, Audit Committee

Jean-René Halde

Director
President and Chief Executive Officer

CONSOLIDATED STATEMENT OF INCOME

For the year ended March 31 ($ in thousands)

	2010	2009
Financing		
Interest income		
Loans	656,773	725,503
Cash equivalents and securities	1,754	19,851
	658,527	745,354
Interest expense	41,536	205,262
Net interest income	616,991	540,092
Fee income	46,093	35,751
Provision for credit losses (Note 7)	260,667	222,848
Income before operating and administrative expenses and net (losses) gains on financial instruments	402,417	352,995
Operating and administrative expenses (Note 17)	287,105	247,716
Income before net (losses) gains on financial instruments	115,312	105,279
Net realized (losses) gains on financial instruments	(5,768)	28,981
Net unrealized (losses) gains on financial instruments	(33,312)	59,768
Income from Financing	76,232	194,028
Subordinate Financing		
Interest income	19,827	18,760
Interest expense	4,208	4,025
Net interest income	15,619	14,735
Realized gains and losses on investments and other income	7,516	7,296
Change in unrealized appreciation (depreciation) of investments	1,507	(3,402)
Income before operating and administrative expenses	24,642	18,629
Operating and administrative expenses (Note 17)	14,428	11,869
Income from Subordinate Financing	10,214	6,760
Venture Capital		
Net realized losses on investments	(107,762)	(25,243)
Interest, dividends and other	2,828	2,167
Unrealized foreign exchange (losses) gains on investments	(33,241)	34,788
Net gains (losses) on foreign exchange contracts	26,034	(28,357)
Change in unrealized appreciation (depreciation) of investments	50,169	(76,366)
Loss before operating and administrative expenses	(61,972)	(93,011)
Operating and administrative expenses (Note 17)	12,165	13,280
Loss from Venture Capital	(74,137)	(106,291)
Consulting		
Revenue	28,129	27,435
Operating and administrative expenses (Note 17)	32,774	30,365
Loss from Consulting	(4,645)	(2,930)
Securitization		
Interest income	11,947	–
Interest expense	3,237	–
Net interest income	8,710	–
Fee income	906	
Loss on initial recognition	(7,543)	–
Income before operating and administrative expenses	2,073	–
Operating and administrative expenses (Note 17)	3,678	1,000
Loss from Securitization	(1,605)	(1,000)
Net Income	6,059	90,567

The accompanying Notes to the Consolidated Financial Statements are an integral part of these statements and Note 16 provides additional information on earnings.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended March 31 ($ in thousands)

	2010	2009
Net income	6,059	90,567
Other comprehensive income (loss)		
Net unrealized gains on available-for-sale assets	6,458	147
Reclassification to net income of gains on available-for-sale assets	–	(17)
Net change in unrealized gains on available-for-sale assets	6,458	130
Net unrealized gains (losses) on cash flow hedges	101	(1,515)
Reclassification to net income of gains on cash flow hedges	(849)	(864)
Net change on cash flow hedges	(748)	(2,379)
Other comprehensive income (loss)	5,710	(2,249)
Comprehensive income	11,769	88,318

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY

For the year ended March 31 ($ in thousands)

	2010	2009
Share capital, beginning of year	1,288,400	1,038,400
Issue of common shares	1,456,000	250,000
Share capital, end of year (Note 15)	2,744,400	1,288,400
Contributed surplus	27,778	27,778
Retained earnings, beginning of year	878,107	803,967
Transition adjustment on financial instruments(1)	–	(473)
Net income	6,059	90,567
Dividends on common shares	(7,915)	(7,038)
Dividends on preferred shares	(6,402)	(8,916)
Retained earnings, end of year	869,849	878,107
Accumulated other comprehensive income (loss)		
Accumulated other comprehensive income (loss) on available-for-sale assets		
Balance at beginning of year	(88)	186
Transition adjustment on financial instruments(1)	–	(404)
Net change in unrealized gains on available-for-sale assets	6,458	130
Balance at end of year	6,370	(88)
Accumulated other comprehensive income (loss) on cash flow hedges		
Balance at beginning of year	(4,633)	(3,014)
Transition adjustment on financial instruments(1)	–	760
Net change on cash flow hedges	(748)	(2,379)
Balance at end of year	(5,381)	(4,633)
Accumulated other comprehensive income (loss), end of year	989	(4,721)
Total shareholder's equity	3,643,016	2,189,564

(1) The 2009 transition adjustment relates to the application of abstract 173, *Credit Risk and the Fair Value of Financial Assets and Financial Liabilities*, issued by the Emerging Issues Committee.

The accompanying Notes to the Consolidated Financial Statements are an integral part of these statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended March 31 ($ in thousands)

	2010	2009
Cash flows provided by operating activities		
Net income	6,059	90,567
Adjustments to determine net cash flows:		
Amortization of loss on initial recognition on asset-backed securities	(819)	–
Amortization of premiums and discounts on borrowings	516	18,977
Net unrealized losses (gains) on financial instruments	33,312	(59,768)
Provision for credit losses	260,667	222,848
Net realized losses on investments	120,695	30,922
Unrealized foreign exchange losses (gains) on investments	33,241	(34,788)
Unrealized gains on foreign exchange contracts	(3,488)	(1,168)
Change in unrealized (appreciation) depreciation on investments	(51,676)	79,768
Amortization of property and equipment and intangible assets	11,018	10,778
Changes in operating assets and liabilities:		
Change in accrued interest receivable on financing	(4,046)	6,584
Change in accrued interest on borrowings	(5,078)	(26,554)
Change in accrued benefit asset and liability	(6,191)	(18,272)
Net change in other assets and other liabilities	55,319	58,762
Net cash flows provided by operating activities	449,529	378,656
Cash flows used in investing activities		
Maturities of securities	49,760	46,506
Disbursements for asset-backed securities	(3,353,740)	–
Repayments of asset-backed securities	78,413	–
Disbursements for loans	(3,870,041)	(2,766,094)
Repayments of loans	1,539,848	1,565,956
Disbursements for subordinate financing investments	(71,491)	(42,017)
Repayments of subordinate financing investments	29,696	34,023
Disbursements for venture capital investments	(58,187)	(87,242)
Proceeds on sales of venture capital investments	47,867	55,863
Acquisition of property and equipment	(8,984)	(3,670)
Acquisition of intangible assets	(14,192)	(3,028)
Net cash flows used in investing activities	(5,631,051)	(1,199,703)
Cash flows provided by financing activities		
Net change in short-term notes	3,574,186	(3,212,020)
Issue of long-term notes	3,179,103	5,685,000
Repayment of long-term notes	(2,549,552)	(2,058,449)
Issue of common shares	1,456,000	250,000
Dividends paid on common and preferred shares	(16,831)	(16,487)
Net cash flows provided by financing activities	5,642,906	648,044
Net increase (decrease) in cash and cash equivalents	461,384	(173,003)
Cash and cash equivalents at beginning of period	552,373	725,376
Cash and cash equivalents at end of period	1,013,757	552,373
Supplemental disclosure of cash flow information		
Amount of interest paid in year	54,067	200,421

The accompanying Notes to the Consolidated Financial Statements are an integral part of these statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

($ in thousands except as otherwise indicated)

1.

ACT OF INCORPORATION, OBJECTIVES AND OPERATIONS OF THE CORPORATION

The Business Development Bank of Canada (BDC) is a Crown corporation that was established by an Act of Parliament on December 20, 1974, as the Federal Business Development Bank and continued under its current name by an Act of Parliament on July 13, 1995. BDC is wholly owned by the Government of Canada and is exempt from income taxes.

The objectives of BDC are to promote and assist in the establishment and development of business enterprises in Canada, especially small and medium-sized enterprises, by providing a wide range of lending, investment and consulting services complementary to those of commercial financial institutions. BDC offers Canadian companies services tailored to meet the current needs of small and medium-sized enterprises while earning an appropriate return on investment capital, which is used to further BDC's activities.

To finance these objectives, BDC borrows funds from Her Majesty in Right of Canada acting through the Minister of Finance. Prior to April 21, 2008, BDC issued debt instruments, which were secured by the Government of Canada. *The Business Development Bank of Canada Act* (BDC Act) also allows the use of hybrid capital instruments to provide the capital required for its operations. The Crown would not be liable for payment of amounts owing under such capital instruments, of which none were outstanding as at March 31, 2010 and 2009.

BDC is for all purposes an agent of Her Majesty in Right of Canada. BDC is also named in Part I of Schedule III to the *Financial Administration Act* (FAA) and is accountable for its affairs to Parliament through the Minister of Industry.

In September 2008, BDC, together with a number of other Crown corporations, was issued a directive (P.C. 2008-1598) pursuant to section 89 of the FAA. This directive ordered parent Crown corporations involved in commercial lending to give due consideration to the personal integrity of those they lend to or provide benefits to, in accordance with the government's policy to improve the accountability and integrity of federal institutions. During fiscal 2009, BDC completed the implementation of the requirements of section 89(6) of the FAA and confirmed that the directive had been met.

2.

SIGNIFICANT ACCOUNTING POLICIES

These Consolidated Financial Statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP). As such, the preparation of financial statements requires that management make estimates and assumptions that affect reported amounts and disclosures in these statements. Actual results could differ significantly from those estimates. Significant estimates include allowances for credit losses on loans, actuarial estimates of employee future benefits and fair values of financial instruments, including venture capital and subordinate financing investments. A variation in the quality of the portfolio or economic conditions under which these estimates are made could result in significant changes in these management judgements. The significant accounting policies used in the preparation of these Consolidated Financial Statements are summarized on the following pages.

BASIS OF CONSOLIDATION

BDC conducts business through a variety of corporate structures, including a wholly owned subsidiary and joint ventures. The subsidiary is used for investment purposes and all interests held by the subsidiary are recorded as investments at fair value as per accounting guideline 18 (AcG-18), *Investment Companies*. BDC also has direct interests in joint ventures. Joint ventures are those in which BDC exercises joint control through an agreement with third parties. All of the assets, liabilities, revenues and expenses of the wholly owned subsidiary, as well as BDC's proportionate share of the assets, liabilities, revenues and expenses of the joint ventures held by BDC directly, are included in these Consolidated Financial Statements. All inter-company transactions and balances have been eliminated.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ADOPTION OF NEW ACCOUNTING STANDARDS

GOODWILL AND INTANGIBLE ASSETS, SECTION 3064

On April 1, 2009, BDC adopted the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3064, *Goodwill and Intangible Assets*. Section 3064 provides clarifying guidance on the criteria that must be satisfied in order for intangible assets to be recognized, including internally developed intangible assets. Subsequent to the adoption of this standard, BDC reclassified $8.8 million representing the net carrying value of systems development costs from Property and equipment to Intangible assets.

FAIR VALUE DISCLOSURE - AMENDMENTS TO: FINANCIAL INSTRUMENTS – DISCLOSURES, SECTION 3862

In June 2009, the CICA amended Section 3862, *Financial Instruments - Disclosures*, in order to align with International Financial Reporting Standards IFRS 7, *Financial Instruments: Disclosures*. Section 3862 now requires that all financial instruments measured at fair value be categorized into one of three hierarchy levels for disclosure purposes. Each level is based on the transparency of the inputs used to measure the fair values of assets and liabilities:

Level 1 - valuation techniques based on quoted prices (unadjusted) observed in active markets for identical assets or liabilities;

Level 2 - valuation techniques based on inputs other than quoted prices in active markets that are either directly or indirectly observable; and

Level 3 - valuation techniques with one or more significant unobservable market inputs.

The enhanced disclosures are included in Note 18.

CLASSIFICATION AND MEASUREMENT OF FINANCIAL INSTRUMENTS

OTHER COMPREHENSIVE INCOME (LOSS) (OCI)

OCI represents changes in Shareholder's equity during a period arising from transactions and other events that include changes in unrealized gains and losses on financial assets classified as available-for-sale, and changes in the fair value of the effective portion of cash flow hedging instruments. The Consolidated Financial Statements include a, Consolidated Statement of Comprehensive Income, which represents the net income for the year and the changes in these items while the cumulative changes in OCI are included in Accumulated other comprehensive income (AOCI), which is presented as part of Shareholder's equity on the Consolidated Balance Sheet.

RECOGNITION AND MEASUREMENT

The accounting standards for financial instruments require that financial assets and financial liabilities, including derivatives, be recognized on the Consolidated Balance Sheet when BDC becomes a party to the contractual provisions of a financial instrument or non-financial derivative contract. As per these standards, all financial instruments are required to be measured at fair value on initial recognition. Measurement in subsequent periods depends on whether the financial instrument has been classified or designated as held-for-trading, available-for-sale, held-to-maturity, loans and receivables, or other financial liabilities. Financial assets and financial liabilities classified or designated as held-for-trading are measured at fair value, with changes in those fair values recognized in Net income. Available-for-sale financial assets are measured at fair value, with unrealized gains and losses being recognized in OCI. Financial assets classified as loans and receivables, and other financial liabilities, are measured at amortized cost.

Premiums and discounts on borrowings are amortized in interest expense over the life of the obligation using the effective interest rate method. Transaction costs are expensed as incurred and BDC accounts for all financial instruments using settlement date accounting.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The following table summarizes BDC's financial instruments classification.

	Measured at fair value			Measured at amortized cost	
	Held-for-trading	Available-for-sale	Cash flow hedges	Loans and receivables	Other financial liabilities
Assets					
Cash and cash equivalents	√	√			
Securities		√			
Asset-backed securities		√			
Loans, net of allowance for credit losses				√	
Derivative assets	√		√		
Other assets[1]				√	
Liabilities					
Accounts payable and accrued liabilities					√
Accrued interest on borrowings					√
Short-term notes	√				√
Unstructured long-term notes					√
Structured long-term notes	√				
Derivative liabilities	√		√		
Other liabilities[1]					√

(1) Certain items within the Other assets and Other liabilities categories on the Consolidated Balance Sheet are not considered to be financial instruments.

HEDGES

BDC uses derivative and non-derivative financial instruments in hedging strategies to manage exposures to interest, currency and other market risks. BDC determines for each derivative whether hedge accounting can be applied. Where hedge accounting can be applied, a hedging relationship is designated as a fair value hedge or a cash flow hedge.

ASSET-BACKED SECURITIES

Asset-backed securities are classified as available-for-sale assets. Available-for-sale assets are initially recognized at fair value. A loss or gain on initial recognition is recorded if there is a difference between the security's yield and the market-demanded yield for similar investments. This loss or gain is amortized in interest income over the life of the security using the effective interest rate method. Subsequently, the asset is measured at fair value with unrealized gains and losses recorded in OCI until the asset is derecognized, with the exception of impairment losses, which are recorded in the Consolidated Statement of Income in the year in which the asset is determined to have become impaired. Interest income is calculated using the effective interest rate method and is recognized in the Consolidated Statement of Income.

The fair value of asset-backed securities is calculated using an estimated yield curve that is derived from the Canadian government yield curve and asset-backed securities spread for comparable transactions. The result is adjusted to reflect the risk of the underlying assets and deal structure.

BDC reviews asset-backed securities on an ongoing basis for possible impairment. An asset is considered impaired if its unrealized losses represent impairment that is considered to be other than temporary. In determining whether a loss is other than temporary, factors considered include the extent of the unrealized loss, the length of time that the security has been in an unrealized loss position, the financial condition and near-term prospects of the issuer, and the ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

LOANS

Loans are classified as loans and receivables. They are recorded at amortized cost including accrued interest receivable, net of allowance for credit losses. Interest on loans is recorded as income on an accrual basis, except for loans that are considered impaired.

Loans are considered impaired when there is deterioration in credit quality to the extent that BDC no longer has reasonable assurance that the full amount of principal and interest will be collected. When a loan becomes impaired, recognition of interest income ceases and any previously accrued interest that is unpaid is reversed against Interest income. Any interest received on impaired loans is applied to the carrying amount of the loan unless the loan is fully secured and does not require a specific allowance, in which case interest income is recognized on a cash basis.

When an impaired loan is measured on the basis of expected future cash flows, the increase in present value attributable to the passage of time is recorded in Interest income. When an impaired loan is only measured on the basis of the fair value of the security underlying the loan, changes in the estimated realizable amount arising subsequent to initial recognition of impairment is recorded in the Provision for credit losses.

ALLOWANCE FOR CREDIT LOSSES

The allowance for credit losses is maintained at a level considered adequate to absorb the credit losses existing in BDC's portfolio. It reflects management's best estimate of losses existing in the loan portfolio at the Balance Sheet date. The allowance is adjusted by an annual provision for credit losses, which is charged against income and is reduced by write-offs, net of recoveries. Loans are written off when all collection efforts have been exhausted and no further prospect of recovery is likely. The allowance for credit losses comprises specific and general allowances.

Specific allowances are established on a loan-by-loan basis for impaired loans. The carrying amount of an impaired loan is reduced to its estimated realizable value by discounting the expected future cash flows at the effective interest rate inherent at the date of the impaired loan or, if cash flows cannot be reasonably determined, by using the estimated fair value of any underlying security, net of realization costs. Initial allowances, as well as subsequent changes thereto, are recorded through the Provision for credit losses as an adjustment to the specific allowance.

The general allowance represents the best estimate of probable impairment attributable to the deterioration of credit quality in the remaining portfolio at the Balance Sheet date for which specific allowances cannot yet be determined. The amount is estimated based on historical loss experience and management's assessment of general economic and business conditions affecting lending operations, recent loan loss experience, and trends in the credit quality of the loan portfolio. In fiscal 2010, BDC completed a review of its general allowance, which resulted in some changes to the calculation methodology. The purpose of the review was to ensure that the assumptions and variables within the calculation methodology remain relevant. The change in methodology represents a change in accounting estimate regarding the allowance for credit losses. Prior periods have not been restated and changes to the methodology did not have a significant impact on the Consolidated Financial Statements.

INVESTMENTS

Venture capital and Subordinate financing investments are measured and presented at fair value as per AcG-18, *Investment Companies*.

Fair value is the amount of the consideration that would be agreed upon in an arm's-length transaction between knowledgeable, willing parties who are under no compulsion to act. Fair value represents management's best estimate of the net worth of an investment at the Balance Sheet date and may not reflect the ultimate realizable value upon the disposition of the investment.

Gains and losses on investments are recognized in income at the time of disposal or write-off. Interest and dividends are recognized in income when reasonable assurance of realization is achieved. Changes in unrealized appreciation or depreciation of investments, including those related to foreign exchange, are measured and recognized in income at the Balance Sheet date.

BDC's approach to fair value measurement has been derived from international guidelines. Based on the type of investments BDC carries out, BDC uses: (i) market-based methodologies, such as the quoted share price or the price of recent similar investments; (ii) discounted earnings or cash flow approaches; or (iii) liquidation or asset-based methods. Significant assumptions used in the determination of fair value can include discount or capitalization rate, rate of return and the weighting of forecasted earnings.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

DERIVATIVE FINANCIAL INSTRUMENTS

Derivatives not designated for hedge accounting are classified as held-for-trading and are measured at fair value, with changes recorded in Net income. Derivatives designated as cash flow hedges are measured at fair value. Changes related to the effective portion of the hedge are recorded in OCI, while changes related to the ineffective portion are recorded in Net income. When hedge accounting is discontinued or if the hedged item is terminated earlier, the amounts previously recognized in AOCI are reclassified to Net income.

The fair value is an estimated price at a point in time that would be agreed upon in the marketplace, subject to the conditions that the prospective buyers and sellers are reasonably knowledgeable about the instrument, and they are behaving in their own best interests and are free of undue pressure to trade. All BDC derivatives are over-the-counter derivatives. The fair value of these derivatives is determined using current market data sourced from leading inter-dealer brokers, together with industry standard mathematical models for estimating fair value.

BDC documents all hedge relationships and its risk management objectives, along with its strategy for carrying out the hedge transactions. This process includes linking these derivative instruments to assets and liabilities on the Consolidated Balance Sheet. BDC assesses whether the derivatives used in hedging transactions are highly effective in offsetting changes in fair value or cash flow of hedged items, both at inception and over the life of the hedge.

Embedded derivatives that are not closely related to the host contract must be separated and classified as held-for-trading financial instruments. As at March 31, 2010 and 2009, BDC has no hybrid instrument including embedded derivatives that should be separated from the host contract.

PROPERTY AND EQUIPMENT AND INTANGIBLE ASSETS

Property and equipment and intangible assets are recorded at cost and amortized using the straight-line method over the estimated useful life of the asset, as follows.

Property and equipment	
Computer and telecommunications equipment	3 years
Furniture, fixtures and equipment	5 years
Leasehold improvements	6 years
Intangible assets	
Systems development costs	3 to 7 years

Systems development costs include expenses directly associated with activities to develop or obtain software for internal use. Costs related to work in progress are not subject to amortization.

PENSION AND OTHER EMPLOYEE FUTURE BENEFITS

BDC maintains a registered defined benefit pension plan, supplemental defined benefit pension plans, and other benefit plans, such as post-employment benefits and post-retirement benefits for eligible employees.

The valuation of the pension and other employee future benefits obligation is determined annually on an actuarial basis using the projected benefit method, pro-rated on service and management's best estimate assumptions, such as the expected long-term rate of return on plan assets, discount rate, rate of compensation increase, inflation, retirement ages of employees and other factors.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The pension and other employee future benefits costs are determined using the cost of employee benefits for the current year's service, the interest cost on the accrued benefit obligation, the expected investment return on the actuarial value of plan assets and the amortization of (i) net actuarial gains or losses; (ii) past service costs or gains; and (iii) transitional assets and obligations. The fair value of plan assets is used for the purpose of calculating the expected return on plan assets. The fair value of plan assets is established as follows.

> Short-term investments are valued at quoted market rates of return.

> Bonds are valued at market rates.

> Public equity investments are valued at fair value based on published closing prices or the last bid prices if the instruments are not traded on the valuation date. Private equity funds of funds are carried at fair value as determined by each general partner.

Actuarial gains or losses on plan assets arise from the difference between the actual return on plan assets for a period and the expected return on plan assets for that period. Actuarial gains or losses on the accrued benefit obligation arise from differences between actual and expected experience and from changes in the actuarial assumptions used to determine the accrued benefit obligation.

Each fiscal year, actuaries determine whether the cumulative actuarial gain or loss is more than 10% of the greater of the fair value of the pension plan assets or accrued benefit obligations. Any amount that exceeds this 10% corridor is amortized to expense over the average remaining service period of BDC's active employees. Amounts that fall within the 10% corridor are not amortized.

Amortization of transitional assets and obligations relates to a change in an accounting policy that came into effect on April 1, 2000. At that date, BDC had transitional assets and obligations that have since been amortized to expense on a straight-line basis. The amortization was based on the average remaining service period of BDC's active employees in accordance with the benefit plans as of April 1, 2000. The transitional assets were fully amortized as of March 31, 2009.

TRANSLATION OF FOREIGN CURRENCIES

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at exchange rates prevailing at the Balance Sheet date. Revenues and expenses denominated in foreign currencies are translated into Canadian dollars at average exchange rates for the year. With the exception of financial assets designated as available-for-sale, foreign exchange gains and losses are included in Net income for the year. Foreign exchange gains and losses for financial assets designated as available-for-sale are included in OCI.

3.

FUTURE ACCOUNTING CHANGES

INTERNATIONAL FINANCIAL REPORTING STANDARDS

The CICA has announced that Canadian GAAP for publicly accountable enterprises will be replaced with International Financial Reporting Standards (IFRS) for any fiscal year beginning on or after January 1, 2011. Effective April 1, 2011, BDC will have to apply IFRS as a basis for financial reporting. BDC is currently in the process of evaluating the impacts and implications of converting to IFRS. Refer to the *Management's Discussion & Analysis* section of the annual report for additionnal information (p.53).

The CICA has published new standards, which should have no significant impact on the Consolidated Financial Statements.

4.

CASH AND CASH EQUIVALENTS

	2010	2009
Bank account balances, net of cheques outstanding	**7,886**	(20,115)
Short-term bank notes		
Available-for-sale	**292,609**	500,113
Held-for-trading	**47,872**	72,375
Repurchase agreements available-for-sale	**665,390**	–
	1,005,871	572,488
Cash and cash equivalents	**1,013,757**	552,373

Cash equivalents include short-term bank notes and repurchase agreements that have maturities at the original acquisition date of less than three months. In order to have more flexibility to meet its corporate objectives, BDC has designated short-term bank notes as available-for-sale or held-for-trading, and repurchase agreements as available-for-sale.

AVAILABLE-FOR-SALE

Available-for-sale cash equivalents are measured at fair value with, unrealized gains and losses recorded in OCI until these instruments are sold. Gains and losses on disposal are recorded in Net realized gains or losses on financial instruments. Interest income earned on available-for-sale cash equivalents is recorded in Interest income using the effective interest rate method.

HELD-FOR-TRADING

Held-for-trading bank notes are notes that BDC purchases for resale over a short period of time. BDC records these bank notes at their fair value and records the mark-to-market adjustments in Net unrealized gains or losses on financial instruments and any gains and losses on the sale of these bank notes in Net realized gains or losses on financial instruments. Interest income earned on held-for-trading cash equivalents is recorded in Interest income using the effective interest rate method.

The fair value of short-term bank notes and repurchase agreements is based on market quotes when available and may not be realized on sale. If quoted market prices are not available, fair values are estimated using market prices of similar cash equivalents.

5.
SECURITIES

	2010	2009
Financial institutions		
Amortized cost	–	51,880
Gross unrealized gains	–	17
Fair value	–	51,897
Yield	–	1.61%
Interest income from securities	162	2,033
Securities in foreign currencies		
Total in euros – amortized cost	–	31,000
Total in Canadian dollars	–	51,897

In fiscal 2009, BDC held securities for liquidity purposes based on policies approved by the board of directors. Section 18(3) of the BDC Act defines the nature of securities that can be held by BDC.

All securities were designated as available-for-sale. Available-for-sale securities were measured at fair value with unrealized gains and losses recorded in OCI until the security was sold. Gains and losses on disposal were recorded in Net realized gains or losses on financial instruments. Interest income earned on available-for-sale securities was recorded in Interest income using the effective interest rate method. Available-for-sale securities consisted of debt securities that may be sold in response to or in anticipation of changes in counterparty credit risk evaluations, to meet liquidity needs, or interest rate fluctuations.

All securities held as at March 31, 2009, were issued by Canadian entities at floating-rates. Yields were based upon carrying values and contractual interest adjusted for amortization of premiums and discounts. The fair value was based on market quotes, when available. If quoted market prices were not available, fair values were estimated using quoted market prices of similar securities. Where appropriate, BDC had entered into cross-currency interest rate and interest rate swaps to hedge the interest rate and foreign exchange risks associated with the above securities. These swaps were designated as cash flow hedges.

6.
ASSET-BACKED SECURITIES

In its January 2009 budget, as part of Canada's Economic Action Plan, the federal government announced the creation of the Canadian Secured Credit Facility (CSCF), with an allocation of up to $12 billion, to purchase Canadian AAA-rated term securities backed by loans and leases on vehicles and equipment, as well as dealer floor plan loans. BDC has been assigned the responsibility for establishing and managing the CSCF on behalf of the federal government. This facility was intended to help businesses and consumers access financing for these products.

The following table summarizes BDC's asset-backed securities portfolio as at March 31, 2010.

	2010	2009
Principal amount	3,275,327	–
Unamortized loss on initial recognition	(6,724)	–
Cumulative fair value appreciation	6,371	–
Carrying value	3,274,974	–
Yield	2.22%	–
Unrealized gains recognized in OCI	6,371	–

7.
LOANS

The following table summarizes loans outstanding as at March 31. Floating-rate loans are classified based on their maturity date and fixed-rate loans are classified based on their repricing or maturity date, whichever is earlier.

	Within 1 year	1 to 5 years	Over 5 years	Total gross amount	General allowance	Specific allowance	Total allowance	Total net amount
Performing	562,618	2,956,503	9,171,252	12,690,373	(524,500)	–	(524,500)	12,165,873
Impaired	28,746	188,166	403,589	620,501	–	(260,853)	(260,853)	359,648
Loans as at March 31, 2010	**591,364**	**3,144,669**	**9,574,841**	**13,310,874**	**(524,500)**	**(260,853)**	**(785,353)**	**12,525,521**
Loans as at March 31, 2009*	415,466	2,984,376	7,717,376	11,117,218	(444,689)	(220,356)	(665,045)	10,452,173

* Includes $516,243 gross amount of impaired loans ($295,887 net amount).

ALLOWANCE FOR CREDIT LOSSES

The following table summarizes the changes in the allowance for credit losses as at March 31.

	2010	2009
Balance at beginning of year	665,045	532,665
Write-offs and other	(141,609)	(93,526)
Interest income due to accretion	(7,540)	(4,802)
Recoveries	8,790	7,860
	524,686	442,197
Provision for credit losses	260,667	222,848
Balance at end of year	785,353	665,045

CREDIT RISK

The principal collaterals held as security and other credit enhancements for loans include: (i) various security on assets; (ii) personal and corporate guarantees; (iii) letters of credit; (iv) assignments of life insurance; (v) assignments or hypothec of third-party loans; and (vi) assignments of lease.

As at March 31, 2010, $13.2 million ($15.8 million in 2009) of the impaired loans was secured by assets that BDC had the power to sell in order to satisfy borrower commitments.

The following table summarizes performing loans outstanding as at March 31, classified by client credit risk exposure.

Client credit risk exposure	2010		2009	
Low	2,593,738	20.4 %	2,303,735	21.7 %
Medium	6,389,652	50.4 %	5,379,913	50.8 %
High	3,706,983	29.2 %	2,917,327	27.5 %
Performing loans outstanding	12,690,373	100.0 %	10,600,975	100.0 %

7. LOANS (CONTINUED)

The following table summarizes performing loans outstanding as at March 31, classified by security risk exposure coverage.

Secured risk exposure	% of security shortfall at authorization	2010		2009	
Secured financing	Less than 30%	**10,292,573**	**81.1%**	8,486,442	80.1%
Partially secured financing	Between 31% and 60%	**1,329,673**	**10.5%**	1,081,465	10.2%
Leverage financing	Over 60%	**1,068,127**	**8.4%**	1,033,068	9.7%
Performing loans outstanding		**12,690,373**	**100.0%**	10,600,975	100.0%

BDC considers a loan past due when a client has not made a payment by the contractual due date. The following table presents the carrying value of loans that are past due but not classified as impaired because they are either less than three months past due, they are secured, or collection efforts are reasonably expected to result in repayment.

Loans past due but not impaired

	Within 1 month	2 to 3 months	Over 3 months	Total
As at March 31, 2010	**87,974**	**17,220**	**20,180**	**125,374**
As at March 31, 2009	112,677	29,523	8,694	150,894

The concentrations of the total loans outstanding, by province and territory, and by industry sector, as at March 31 are set out in the tables below. The largest concentration in one individual or closely related group of clients was less than 1% in 2010 and 2009.

Geographic distribution	2010		2009	
Newfoundland and Labrador	**516,073**	**3.9%**	430,604	3.9%
Prince Edward Island	**43,086**	**0.3%**	43,745	0.4%
Nova Scotia	**379,981**	**2.9%**	301,168	2.7%
New Brunswick	**484,343**	**3.6%**	451,209	4.1%
Quebec	**4,248,174**	**32.0%**	3,799,220	34.2%
Ontario	**4,141,783**	**31.1%**	3,454,883	31.1%
Manitoba	**306,700**	**2.3%**	246,563	2.2%
Saskatchewan	**257,983**	**1.9%**	203,836	1.8%
Alberta	**1,415,605**	**10.6%**	1,023,516	9.2%
British Columbia	**1,421,442**	**10.7%**	1,080,418	9.7%
Yukon	**66,960**	**0.5%**	54,615	0.5%
Northwest Territories and Nunavut	**28,744**	**0.2%**	27,441	0.2%
Total loans outstanding	**13,310,874**	**100.0%**	11,117,218	100.0%

Industry sector	2010		2009	
Manufacturing	**3,942,018**	**29.6%**	3,569,991	32.1%
Wholesale and retail trade	**2,795,682**	**21.0%**	2,418,757	21.8%
Tourism	**1,563,881**	**11.7%**	1,327,463	11.9%
Construction	**929,218**	**7.0%**	713,490	6.4%
Transportation and storage	**710,104**	**5.3%**	584,273	5.3%
Commercial properties	**1,152,679**	**8.7%**	589,090	5.3%
Business services	**571,678**	**4.3%**	514,089	4.6%
Other	**1,645,614**	**12.4%**	1,400,065	12.6%
Total loans outstanding	**13,310,874**	**100.0%**	11,117,218	100.0%

8.

SUBORDINATE FINANCING INVESTMENTS

BDC maintains a medium- to high-risk portfolio of subordinate financing investments. The following table summarizes Subordinate financing investments outstanding as at March 31. Floating-rate investments are classified based on their maturity date, and fixed-rate investments are classified based on their repricing or maturity date, whichever is earlier.

Investments	Within 1 year	1 to 5 years	Over 5 years	Total gross amount	Cumulative fair value depreciation	Total net amount
As at March 31, 2010	**18,674**	**157,468**	**23,891**	**200,033**	**(6,830)**	**193,203**
As at March 31, 2009	17,457	127,499	19,076	164,032	(8,962)	155,070

The principal collaterals held as security and other credit enhancements for investments include: (i) various security on assets; (ii) personal and corporate guarantees; (iii) letters of credit; (iv) assignments of life insurance; (v) assignments or hypothec of third-party loans; (vi) assignments of lease; and (vii) hypothecation of shares and warrants.

The concentrations of the total investments by geographic distribution as at March 31 are set out in the table below. The largest concentration in one individual or closely related group of clients is 3.5% (3.1% in 2009).

Geographic distribution	2010		2009	
Newfoundland and Labrador	**13,343**	**6.7%**	6,314	3.9%
Prince Edward Island	–	–	379	0.2%
Nova Scotia	**4,294**	**2.1%**	3,001	1.8%
New Brunswick	**5,203**	**2.6%**	2,935	1.8%
Quebec	**106,970**	**53.5%**	89,238	54.4%
Ontario	**43,700**	**21.8%**	36,818	22.5%
Manitoba	**1,126**	**0.6%**	2,173	1.3%
Saskatchewan	**337**	**0.2%**	337	0.2%
Alberta	**15,242**	**7.6%**	15,263	9.3%
British Columbia	**9,818**	**4.9%**	7,574	4.6%
Total investments	**200,033**	**100.0%**	164,032	100.0%

8. SUBORDINATE FINANCING INVESTMENTS (CONTINUED)

BDC holds a portion of its portfolio through its joint ventures with the Caisse de dépôt et placement du Québec. BDC acts as the general partner of the following limited partnerships: (i) AlterInvest Fund L.P.; (ii) AlterInvest II Fund L.P.; and (iii) AlterInvest Investment Fund Inc. The following table summarizes BDC's recorded proportionate share of the assets, liabilities, revenues, expenses and cash flows relating to its interests in the joint ventures.

	2010	2009
Current assets	**8,054**	3,402
Subordinate financing investments	**163,910**	151,731
Current liabilities	**200**	325
Net interest income	**19,274**	18,003
Realized losses on investments and other income	**(636)**	(1,452)
Change in unrealized appreciation (depreciation) of investments	**1,145**	(3,165)
Operating and administrative expenses	**71**	95
Income from subordinate financing investments	**19,712**	13,291
Cash flows provided by (used in):		
Operating activities	**16,583**	16,509
Investing activities	**(16,302)**	(15,614)
Financing activities	**4,407**	(12,357)

9.

VENTURE CAPITAL INVESTMENTS

BDC maintains a high-risk portfolio of venture capital investments that is focused on early-stage and fast-growing companies having promising positions in their respective marketplaces and strong growth potential. The concentrations of venture capital investments are listed below. The largest single investment within these sectors is 2.8% of total venture capital investments at cost (2.2% in 2009).

	2010		2009	
Industry sector	**Fair value**	**Cost**	Fair value	Cost
Biotechnology, medical and health	**105,225**	**158,283**	117,807	195,890
Information technology	**77,408**	**101,904**	102,697	135,702
Electronics	**67,480**	**88,771**	94,410	98,716
Communications	**37,136**	**51,059**	56,657	85,052
Industrial	**11,750**	**21,190**	17,246	20,914
Other	**3,805**	**4,000**	583	1,155
Total direct investments	**302,804**	**425,207**	389,400	537,429
Funds	**59,466**	**87,162**	52,231	71,230
Venture capital investments	**362,270**	**512,369**	441,631	608,659

9. VENTURE CAPITAL INVESTMENTS (CONTINUED)

The following table presents a summary of the venture capital portfolio, by type of investment.

	2010		2009	
Investment type	**Fair value**	**Cost**	Fair value	Cost
Common shares	42,328	85,812	38,340	91,377
Preferred shares	226,390	288,354	311,016	382,942
Debentures	34,086	51,041	40,044	63,110
Funds	59,466	87,162	52,231	71,230
Venture capital investments	362,270	512,369	441,631	608,659

10.

PROPERTY AND EQUIPMENT

	Cost	Accumulated amortization	Carrying value
Computer and telecommunications equipment	14,116	8,841	5,275
Furniture, fixtures and equipment	15,648	11,650	3,998
Leasehold improvements	34,701	27,030	7,671
Total 2010	64,465	47,521	16,944
Total 2009	129,138	113,760	15,378

11.

INTANGIBLE ASSETS

	Cost	Accumulated amortization	Carrying value
Systems development costs	41,595	35,205	6,390
Projects in progress	13,016	–	13,016
Total 2010	54,611	35,205	19,406
Total 2009	41,420	32,606	8,814

12.
OTHER ASSETS

	2010	2009
Future margin receivable[1]	**23,479**	54,381
Interest receivable on asset-backed securities	**2,318**	–
Interest receivable on derivatives	**4,937**	7,440
Accounts receivable from consulting clients	**2,338**	3,034
Other	**9,567**	13,113
	42,639	77,968

(1) Represents contractual cash flows to be received on the termination date of certain derivative financial instruments.

13.
BORROWINGS

Short-term notes, other than cash collateral received from counterparties, are measured at amortized cost. From time to time, BDC requests cash collateral from its counterparties when they exceed their limits under signed *International Swaps and Derivatives Association* agreements. These transactions are recorded as short-term notes, designated as held-for-trading and measured at fair value, with unrealized gains and losses recorded in Net unrealized gains or losses on financial instruments. The table below presents the outstanding notes as at March 31.

			2010		2009	
Maturity date	Effective rate	Currency	**Principal amount**	**Carrying value**	Principal amount	Carrying value
Short-term notes/amortized cost						
2010	0.28% – 0.86%	CAD	–	–	1,915,000	1,914,621
2011	0.14% – 0.23%	CAD	**5,510,000**	**5,509,990**	–	–
				5,509,990		1,914,621
Short-term notes/held-for-trading						
2010	0.04%	USD	–	–	51,550	65,030
	0.52%	CAD	–	–	4,350	4,350
2011	0.00%	USD	**49,517**	**47,872**	–	–
				47,872		69,380
Total short-term notes				**5,557,862**		1,984,001

13. BORROWINGS (CONTINUED)

Unstructured long-term notes are recorded at amortized cost. Structured notes have been designated as held-for-trading, as they are associated with derivatives classified as held-for-trading. Structured notes are subject to interest rate, cross-currency interest rate and equity-linked swap contracts and options with other financial institutions. They are recorded at fair value, with unrealized gains or losses recorded in Net unrealized gains and losses on financial instruments. There is no liquid market for these structured notes and their fair values are determined using current market data sourced from leading inter dealer brokers, together with industry standard mathematical models for estimating the fair value.

					2010		2009
Maturity Date	**2010 Effective rate***	2009 Effective rate*	Currency	**Principal amount**	**Carrying value**	Principal amount	Carrying value
Long-term notes/amortized cost							
2010		0.28 % – 4.75 %	CAD	–	–	1,588,000	1,587,981
2011	**0.15 % – 4.75 %**	0.26 % – 4.75 %	CAD	**2,206,000**	**2,205,973**	2,284,000	2,283,845
2012	**0.13 % – 4.75 %**	0.31 % – 4.75 %	CAD	**600,000**	**600,000**	705,000	705,000
2013	**0.13 % – 3.43 %**	0.28 % – 3.43 %	CAD	**2,677,403**	**2,677,403**	717,000	717,000
2014	**0.15 % – 3.51 %**	0.31 % – 3.51 %	CAD	**1,416,607**	**1,416,607**	310,000	310,000
2015	**3.52 % – 3.54 %**	3.52 % – 3.54 %	CAD	**20,000**	**20,000**	20,000	20,000
2016	**3.43 %**	3.38 % – 3.47 %	CAD	**15,000**	**15,000**	45,000	45,000
					6,934,983		5,668,826
Long-term notes/held-for-trading							
2010		0.42 %	USD	–	–	15,000	18,853
		0.20 % – 0.58 %	CAD	–	–	178,178	201,871
2011	**0.12 %**	0.37 %	USD	**10,000**	**10,140**	10,000	12,440
	(0.03 %) – 0.33 %	0.20 % – 0.55 %	CAD	**115,405**	**118,926**	135,203	137,225
2012	**(0.04 %) – 0.02 %**	0.20 % – 0.26 %	CAD	**91,012**	**111,849**	115,820	142,703
2013	**0.16 %**	0.38 %	CAD	**5,000**	**6,777**	5,000	6,126
2014		0.41 %	USD	–	–	5,800	7,302
	0.10 % – 0.16 %	0.36 % – 0.55 %	CAD	**98,560**	**99,514**	99,748	99,663
2015	**0.13 %**	0.38 %	JPY	**500,000**	**5,989**	500,000	8,598
	0.10 % – 0.16 %	0.36 % – 0.55 %	CAD	**125,770**	**115,088**	126,528	116,652
2016		0.38 % – 0.41 %	JPY	–	–	2,000,000	25,299
	0.12 %	0.35 %	CAD	**19,767**	**20,828**	20,387	22,464
2017	**0.14 %**	0.38 % – 0.41 %	JPY	**1,200,000**	**12,593**	3,700,000	43,855
		0.34 % – 0.43 %	USD	–	–	43,000	52,967
2018	**0.11 % – 0.22 %**	0.41 % – 0.52 %	JPY	**6,300,000**	**66,800**	12,500,000	153,202
2019	**0.10 % – 0.18 %**	0.36 % – 0.43 %	JPY	**5,900,000**	**61,791**	13,800,000	169,150
2020	**0.10 % – 0.20 %**	0.36 % – 0.51 %	JPY	**15,200,000**	**161,193**	17,600,000	204,100
2021	**0.10 % – 0.18 %**	0.35 % – 0.42 %	JPY	**5,360,000**	**53,337**	11,560,000	135,779
2022	**0.17 % – 0.20 %**	0.39 % – 0.42 %	JPY	**1,500,000**	**15,938**	1,900,000	23,114
	0.08 % – 4.31 %	0.30 % – 4.31 %	CAD	**292,601**	**306,129**	292,601	317,906
2023	**(0.33 %) – 0.20 %**	0.00 % – 0.44 %	JPY	**6,100,000**	**64,482**	6,800,000	76,897
					1,231,374		1,976,166
Total long-term notes					**8,166,357**		7,644,992

* The effective rates on long-term notes are established after giving effect to swap contracts, when applicable, and refer to yield to maturity for fixed-rate issues and yield to reset for floating-rate issues.

13. BORROWINGS (CONTINUED)

As at March 31, 2010, long-term notes recorded at amortized cost included $3,087,010 of funding for asset-backed securities (nil in 2009).

The maturity dates for extendable notes are presented based on their first option date. BDC has issued a number of structured notes for which interest and/or principal at maturity is linked to fluctuations in equity indices, currency rates, swap rates and other market references. Some notes may be called prior to maturity, or have their maturity extended, upon exercise of call or extension options by BDC or the note holders. The types of notes included in the previous table are as follows.

	2010	2009
Interest-bearing notes	**7,316,730**	6,067,862
Fixed- and inverse floating rate notes	**109,437**	330,751
Managed futures	**104,375**	280,109
Notes linked to equity indices	**142,332**	186,964
Notes linked to currency rates	**189,523**	293,583
Notes linked to swap rates	**9,857**	108,858
Other structured notes	**294,103**	376,865
	8,166,357	7,644,992

As at March 31, 2010, long-term notes of $428,352 were redeemable prior to maturity ($904,705 as at March 31, 2009).

As at March 31, 2010, the payment requirements of long-term notes are as follows.

2011	**2,719,778**
2012	**1,047,679**
2013	**2,859,347**
2014	**597,943**
2015	**152,837**
2016 and later	**794,470**
	8,172,054

BDC has an available overdraft facility of $75 million. When the daily balance outstanding is in an overdraft position, interest charges are accumulated at prime. At March 31, 2010, BDC was not in an overdraft position.

14.

OTHER LIABILITIES

	2010	2009
Deposits from clients	20,227	16,262
Deferred income	14,656	10,347
Other	7,984	4,719
	42,867	31,328

15.

SHARE CAPITAL AND STATUTORY LIMITATIONS

SHARE CAPITAL

Authorized:

(a) an unlimited number of preferred shares without par value, non-voting, issuable in series; and

(b) an unlimited number of common shares, having a par value of $100 (one hundred dollars) each.

Outstanding			**2010**			2009
	Number of shares	**Amount**	**Dividend rate**	Number of shares	Amount	Dividend rate
Preferred shares						
Class A – Series 1	500,000	50,000	3.535 %	500,000	50,000	3.535 %
– Series 2	500,000	50,000	1.815 %	500,000	50,000	4.455 %
– Series 3	500,000	50,000	2.205 %	500,000	50,000	3.965 %
– Series 4	400,000	40,000	1.400 %	400,000	40,000	4.130 %
– Series 5	400,000	40,000	1.690 %	400,000	40,000	3.230 %
		230,000			230,000	
Common shares	25,144,000	2,514,400		10,584,000	1,058,400	
Total outstanding share capital		2,744,400			1,288,400	

Class A preferred shares have a fixed, preferential and cumulative dividend and are exchangeable at the option of the holder, with the approval of the Minister of Finance, for fully paid common shares on the basis of one common share for each Class A preferred share. All dividends accumulated or declared and unpaid as at the date of exchange are payable by BDC on a pro-rata basis, as if such dividends had accrued from day to day. The dividend rates on Class A preferred shares are for periods ranging from two to five years and are adjusted at the beginning of the subsequent period to equal the consolidated revenue fund lending rate published by the Minister of Finance, plus a specified premium ranging from 0.250% to 0.375%.

15. SHARE CAPITAL AND STATUTORY LIMITATIONS (CONTINUED)

STATUTORY LIMITATIONS

As per the BDC Act, the debt-to-equity ratio of BDC may not exceed 12:1. This ratio is defined as the aggregate of borrowings (as shown in the Consolidated Balance Sheet) and contingent liabilities of BDC in the form of guarantees related to financial services over the total shareholder's equity, which excludes AOCI. BDC's ratio at March 31, 2010 was 3.8:1 (4.4:1 as at March 31, 2009).

In addition, the paid-in capital of BDC, the contributed surplus and any proceeds that have been prescribed as equity must not at any time exceed $3.0 billion. As at March 31, 2010, these amounts totalled $2.772 billion ($1.316 billion as at March 31, 2009). This increase results from the issuance of 14.56 million additional common shares for a total amount received of $1.456 billion (2.5 million shares for $250 million in 2009).

CAPITAL ADEQUACY

Treasury Board of Canada Secretariat provides BDC with capital adequacy ratios. BDC must maintain capital and loss provisions sufficient to ensure that BDC can withstand unfavourable economic circumstances without requiring additional government funding. Adequate capital ratios reflect the relative risk of BDC's assets. The required capital is at least 5% for asset-backed securities; 10% of term loans net of allowance for credit losses; 25% for quasi-equity loans (including subordinate financing investments) and 100% for venture capital investments. Capital adequacy ratios were also established for loan guarantees and letters of credit to reflect the relative risk of these contingent liabilities. During the year, BDC operated in accordance with its capital adequacy guidelines. The following table presents the minimum capital required as at March 31.

	2010			2009		
	Carrying value[1]	**Capital ratio**	**Minimum capital required**	Carrying value	Capital ratio	Minimum capital required
Asset-backed securities	**3,274,974**	**20 : 1**	**163,749**	–	–	–
Loans						
Term loans	**11,710,490**	**10 : 1**	**1,171,049**	9,837,599	10 : 1	983,760
Quasi-equity	**815,031**	**4 : 1**	**203,758**	614,574	4 : 1	153,644
Total loans, net of allowance for credit losses	**12,525,521**		**1,374,807**	10,452,173		1,137,404
Subordinate financing	**193,203**	**4 : 1**	**48,301**	155,070	4 : 1	38,768
Venture capital	**362,270**	**1 : 1**	**362,270**	441,631	1 : 1	441,631
Loan guarantees	**10,780**	**3 : 1**	**3,593**	–	–	–
Letters of credit	**50,766**	**10 : 1**	**5,077**	–	–	–
Total	**16,417,514**		**1,957,797**	11,048,874		1,617,803
Actual capital[2]			**3,648,397**			2,194,197
Surplus			**1,690,600**			576,394

(1) As the carrying value for letters of credit and loan guarantees is nil, the value represents the committed amount (refer to Note 22).

(2) The actual capital excludes AOCI on cash flow hedges (accumulated loss of $5,381 in 2010 and $4,633 in 2009).

16.

INFORMATION INCLUDED IN THE CONSOLIDATED STATEMENT OF INCOME

	2010	2009
Interest income		
Financing	658,527	745,354
Subordinate Financing	19,827	18,760
Venture Capital	482	474
Securitization	11,947	–
	690,783	764,588
Interest expense		
Interest on notes	34,473	135,614
Interest on swaps	10,944	72,692
Other	3,564	1,614
	48,981	209,920
Net realized (losses) gains on financial instruments		
Designated as held-for-trading	–	(17,974)
Classified as held-for-trading	849	48,723
Other	(6,617)	(1,768)
	(5,768)	28,981
Net unrealized gains (losses) on financial instruments		
Designated as held-for-trading	16,627	(24,056)
Classified as held-for-trading	(49,939)	83,824
	(33,312)	59,768
Amortization of		
Loss on initial recognition of asset-backed securities	(819)	–
Premiums and discounts on borrowings	516	18,977
Property and equipment	7,418	7,196
Intangible assets	3,600	3,582

17.

OPERATING AND ADMINISTRATIVE EXPENSES

2010

	Financing	Subordinate Financing	Venture Capital	Consulting	Securitization	Total
Salaries and benefits	186,154	12,507	8,483	16,203	1,098	224,445
Premises and equipment	32,001	727	1,535	1,620	53	35,936
Other expenses	68,950	1,194	2,147	14,951	2,527	89,769
	287,105	14,428	12,165	32,774	3,678	350,150

2009

	Financing	Subordinate Financing	Venture Capital	Consulting	Securitization	Total
Salaries and benefits	153,795	9,886	9,157	15,339	–	188,177
Premises and equipment	31,606	712	1,555	984	–	34,857
Other expenses	62,315	1,271	2,568	14,042	1,000	81,196
	247,716	11,869	13,280	30,365	1,000	304,230

18.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The amounts set out below represent the fair values of financial instruments held or issued by BDC using the valuation methods and assumptions as described further. The estimated fair values represent approximate amounts at which the instruments could be exchanged between knowledgeable, willing parties in an arm's-length transaction. However, many of the financial instruments lack an available trading market. Therefore, in these cases, fair values are estimated using present value and other valuation techniques that are significantly affected by the assumptions used. As such, the fair value estimates should not be interpreted as realizable values in an immediate settlement of the instruments.

			2010			2009
	Fair value	**Carrying value**	**Fair value over carrying value**	Fair value	Carrying value	Fair value over carrying value
Assets						
Cash and cash equivalents	**1,013,757**	**1,013,757**	–	552,373	552,373	
Securities	–	–	–	51,897	51,897	–
Asset-backed securities	**3,274,974**	**3,274,974**	–	–	–	–
Loans, net of allowance for credit losses	**12,575,743**	**12,525,521**	**50,222**	10,539,817	10,452,173	87,644
Subordinate financing investments	**193,203**	**193,203**	–	155,070	155,070	–
Venture capital investments	**362,270**	**362,270**	–	441,631	441,631	–
Derivative assets	**85,779**	**85,779**	–	199,488	199,488	–
Other assets[1]	**40,342**	**40,342**	–	77,430	77,430	–
	17,546,068	**17,495,846**	**50,222**	12,017,706	11,930,062	87,644
Liabilities						
Accounts payable and accrued liabilities	**71,640**	**71,640**	–	62,443	62,443	–
Accrued interest on borrowings	**11,893**	**11,893**	–	16,971	16,971	–
Short term notes	**5,557,862**	**5,557,862**	–	1,984,001	1,984,001	–
Long term notes	**8,171,189**	**8,166,357**	**4,832**	7,683,216	7,644,992	38,224
Derivative liabilities	**73,233**	**73,233**	–	51,677	51,677	–
Other liabilities[1]	**28,208**	**28,208**	–	23,028	23,028	–
	13,914,025	**13,909,193**	**4,832**	9,821,336	9,783,112	38,224
Total			**45,390**			49,420

(1) Certain items within the Other assets and Other liabilities categories on the Consolidated Balance Sheet are not considered to be financial instruments.

Fair values are based on a range of valuation methods and assumptions, as follows.

Financial instruments valued at carrying value – The estimated fair value of the following assets and liabilities is assumed to approximate carrying value, as the items are short term in nature:

- > cash, designated as held-for-trading;
- > other assets, classified as loans and receivables;
- > accounts payable and accrued liabilities, recorded at amortized cost;
- > accrued interest on borrowings, recorded at amortized cost;
- > short-term notes (refer to Note 13); and
- > other liabilities, recorded at amortized cost.

18. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Cash equivalents – The basis used to estimate the fair value is provided in Note 4.

Securities – The basis used to estimate the fair value is provided in Note 5.

Asset-backed securities – The basis used to estimate the fair value is provided in Note 2.

Loans – For performing floating-rate loans, estimated fair value is assumed to equal carrying value. For performing fixed-rate loans, estimated fair value is determined using a discounted cash flow calculation that uses market interest rates currently charged for similar new loans at March 31 to expected maturity or repricing. For impaired loans, fair value is equal to carrying value in accordance with the valuation methods described in Note 2 under *"Allowance for credit losses"*.

Subordinate financing and Venture capital investments – The basis used to estimate the fair value is provided in Note 2.

Long-term notes – The basis used to estimate the fair value is provided in Note 13. Fair value of unstructured long-term notes is determined using a discounted cash flow calculation that uses market interest rates currently charged for similar notes.

Derivative financial instruments – The basis used to estimate the fair value is provided in Note 2.

FAIR VALUE OF ASSETS AND LIABILITIES CLASSIFIED USING THE FAIR VALUE HIERARCHY

The following table presents financial instruments measured at fair value classified by their fair value hierarchy (refer to Note 2 for definition).

				2010
	Fair value measurements using			**Assets/liabilities at fair value**
	Level 1	Level 2	Level 3	
Assets				
Cash and cash equivalents	7,886	1,005,871	–	**1,013,757**
Asset-backed securities	–	3,274,974	–	**3,274,974**
Subordinate financing investments	–	–	193,203	**193,203**
Venture capital investments	17,655	–	344,615	**362,270**
Derivative assets	–	85,779	–	**85,779**
	25,541	4,366,624	537,818	**4,929,983**
Liabilities				
Short-term notes/held-for-trading	–	47,872	–	**47,872**
Long-term notes/held-for-trading	–	1,231,374	–	**1,231,374**
Derivative liabilities	–	73,233	–	**73,233**
	–	1,352,479	–	**1,352,479**

18. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

CHANGES IN FAIR VALUE MEASUREMENT FOR INSTRUMENTS CATEGORIZED IN LEVEL 3

	Subordinate financing investments	Venture capital investments	Total
Fair value at April 1, 2009	155,070	416,708	**571,778**
Total realized losses included in net income	(5,387)	(97,507)	**(102,894)**
Unrealized appreciation of investments included in net income	1,507	25,161	**26,668**
Unrealized foreign exchange losses on hedged portfolio	–	(30,659)	**(30,659)**
Disbursements for investments and other	71,709	58,928	**130,637**
Repayments and proceeds on sale investments	(29,696)	(28,016)	**(57,712)**
Fair value at March 31, 2010	**193,203**	**344,615**	**537,818**

19.

RISK MANAGEMENT

GOVERNANCE

Risk is an inherent feature of the financial sector. BDC uses an enterprise risk management (ERM) framework based on its financial autonomy and on its obligation to be commercially viable.

Under the ERM framework, credit, market and liquidity risks have been identified, defined and managed. The management of these risks is accomplished through the development and communication of policies, the establishment of formal risk reviews and approval processes, and the establishment of limits and delegation of authorities.

BDC's ERM policy codifies the integrated, enterprise-wide process by which BDC identifies, assesses, measures, manages and reports risk concerns, events, exposures and potential opportunities. The ERM framework assists BDC to be methodical and consistent in its planning, decision making and operations. It prevents the Bank from managing risk in an uncoordinated or piecemeal way.

ERM is surveyed by the board of directors and its committees. In each line of business, management ensures that governance activities, controls and management processes and procedures are consistent with BDC's ERM framework.

BDC's overall risk governance structure, and the roles and responsibilities of risk groups and committees, are described in the Risk Management section of the annual report (p.34).

NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

BDC is exposed to the following risks: credit risk, market risk and liquidity risk. The following section provides definitions of these risks and describes BDC's risk management policies and risk measurements.

CREDIT RISK

Credit risk is the risk that a financial loss will be incurred due to the failure of a counterparty in discharging its contractual commitment or obligation to BDC. For the purposes of credit risk activities, BDC distinguishes between credit risk arising from asset-backed securities issuers, borrowers and investees, as well as counterparties to treasury activities.

19. RISK MANAGEMENT (CONTINUED)

Asset-backed securities

To mitigate asset-backed securities credit risk, securities purchased must be rated AAA by two independent rating agencies at the time of purchase. The rating is derived by evaluating the transaction structure and the credit enhancement supporting the securities. On an ongoing basis, BDC receives portfolio reports that describe the performance of the security along with the cash flows associated with the collateral. The maximum exposure to credit risk of asset-backed securities is limited to the carrying value of the securities. Refer to Note 6 *Asset-backed securities* for additional information on the asset-backed securities portfolio.

Borrowers and investees

BDC uses a number of principles to manage credit exposures from loans and investments, which include:

> the use of a standardized credit risk rating classification;
> credit policies, guidelines and directives, communicated to officers whose activities and responsibilities include credit granting and risk assessment, which ensure early recognition of problem accounts and immediate implementation of steps to protect BDC's assets;
> independent reviews of credit valuation, risk classification and credit management procedures performed by Internal Audit, which include reporting the results to senior management, the president and chief executive officer, and the audit committee;
> approval of larger transactions by the Credit/Investment and Risk Committee of the board of directors, based on recommendations made by the Credit Risk Committee;
> concentration limits that are monitored to protect BDC from being overly concentrated in any one province or industry sector;
> monitoring to ensure that exposure to a single borrower or associated borrowers, unless approved by the board of directors, does not represent more than 10% of the Shareholder's equity;
> annual reviews of individual credit facilities; and
> a watch list report recording accounts with evidence of weakness as well as an impaired loan report covering loans that show impairment to the point where a loss is possible.

The maximum exposure to credit risk from borrowers and investees is limited to the carrying amount of the loans and investments in debentures. Refer to Note 7 *Loans*, Note 8 *Subordinate financing investments* and Note 9 *Venture capital investments* for additional information on loans and investment portfolios.

Treasury activities

In order to mitigate the credit risk inherent in treasury activities, the Treasury Risk Management Unit identifies and measures BDC's credit risk exposure related to derivative counterparties and issuers of securities and cash equivalents.

The notional amounts of derivative financial instruments held by BDC are not indicative of the credit risk exposure associated with the contracts. The risk of loss is related to the possibility that a counterparty to a transaction will not perform as agreed. In the event of default by a counterparty, the risk to BDC in these transactions would be limited to the prevailing currency and/or interest rate differentials, as represented by the market values of transactions that are in an unrealized gain position.

BDC limits its exposure to this type of risk by dealing only with financial institutions having credit ratings in accordance with the Department of Finance guidelines, and has no significant concentrations in any individual financial institution.

BDC continually monitors its position and the credit ratings of its counterparties, and seeks to limit its credit exposure by entering into master netting agreements with counterparties. The credit risk associated with contracts in a favourable position is eliminated by a master netting agreement only to the extent that contracts in an unfavourable position with the same counterparty will not be settled before the favourable contracts. BDC's overall exposure to credit risk on derivative instruments can quickly change substantially, since it is affected by each transaction subject to the arrangement.

19. RISK MANAGEMENT (CONTINUED)

Counterparty credit risk exposure	Counterparty ratings			
	AAA	AA - to AA+	A to A+	Total
Gross positive replacement cost	–	37,875	47,904	85,779
Impact of master netting agreements	–	(9,076)	(11,926)	(21,002)
Replacement cost (after master netting agreements) – 2010	–	28,799	35,978	64,777
Replacement cost (after master netting agreements) – 2009	58	69,759	87,019	156,836
Number of counterparties				
March 31, 2010	–	7	10	17
March 31, 2009	1	10	8	19

Finally, to manage the credit risk arising from an issuer of securities and cash equivalents, the Treasury Risk Management Unit ensures the liquidity portfolio is composed of securities issued or guaranteed by entities that have a minimum credit rating of A.

MARKET RISK

Market risk for BDC is the impact on the fair value or future cash flows of a financial instrument that will fluctuate as a result of changes in financial market variables, such as interest rates and foreign exchange rates. Market risk for BDC also arises from unpredictable venture capital financial markets.

Interest rate risk

Interest rate risk is defined as the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market interest rates. BDC can only be exposed to Canadian fixed and floating interest rates as set out in the Minister of Finance, annual standing borrowing approval letter. BDC uses derivatives to eliminate exposure to interest rates changes in foreign markets and equity, commodity or index fluctuations.

Therefore, the risk and potential variability in earnings arise primarily when cash flows associated with interest-sensitive assets and liabilities have different repricing dates. A positive interest rate gap exists when interest-sensitive assets exceed interest-sensitive liabilities for a specific maturity or repricing period. A positive gap will result in an increase in Net interest income when market interest rates rise, since assets reprice earlier than liabilities. The opposite impact will occur when market interest rates fall.

To manage interest rate risk on its asset-backed securities, BDC funds each issuance of asset-backed securities with specific long-term borrowings and equity. Long-term borrowings have similar payment schedules and repricing periods to mitigate interest rate risk. Refer to Note 13 *Borrowings* for additional information.

To manage interest rate risk on its other interest-sensitive assets and interest-sensitive liabilities, BDC establishes policy guidelines for interest rate gap positions and meets regularly to monitor the Bank's situation and decide future strategies in light of changing market conditions. The objective is to manage the interest rate risk within sound and prudent guidelines. Interest rate risk policies are approved and reviewed at least annually by the board of directors.

Exposure to interest rate risk is controlled by managing the size of the static gap positions between interest-sensitive assets and interest-sensitive liabilities for future periods. Gap analysis is supplemented by computer simulation of the asset liability portfolio structure, duration analysis and dollar estimates of net interest income sensitivity for periods of up to one year. The interest rate gap is measured daily. Note 21, *Interest rate sensitivity* shows the gap position as of March 31, 2010 (with comparatives for fiscal 2009) for selected time intervals. The gap analysis in Note 21 is a static measurement of interest rate-sensitive gaps at a specific time. These gaps can change significantly in a short period of time. The impact of changes in market interest rates on earnings will depend upon the magnitude and rate of change in interest rates, as well as the size and maturity structure of the cumulative interest rate gap position and management of that position over time.

Exposure to interest rate risk is also monitored with a net interest income sensitivity stress test. A parallel and sustainable 200-basis-point shock on the Canadian yield curve is simulated and the impact on net interest income has to be less than 10%. As at March 31, 2010 and 2009, the impact was 4%.

19. RISK MANAGEMENT (CONTINUED)

Foreign exchange risk

Foreign exchange risk arises when there is a difference between assets and liabilities held in foreign currencies. Foreign exchange risk is defined as the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in foreign exchange rates. It's BDC's practice to economically hedge borrowings, investments and loans in foreign currencies against movements in the foreign exchange rate by using foreign exchange forward contracts. Refer to Note 20 *Derivative Financial Instruments* for more information.

Venture capital market risk

The vagaries of financial markets, as well as the presence and appetite of buyers, dictate the timing of venture capital divestments. This timing, in turn, affects the value of BDC venture capital investments. To manage this risk, BDC uses a rigorous selection process of investments and works closely with its investee companies. BDC also lowers the risk of its venture capital investments by applying conservative valuations when purchasing participation in a company, co-investing with other venture capital investors and monitoring investments regularly.

The Venture Capital Committee, composed of senior managers, reviews all investment transactions and approves those within its delegated limits. For larger transactions, this committee makes recommendations to the Credit/Investment and Risk Committee of the board for approval.

LIQUIDITY RISK

Liquidity risk is the risk that BDC will be unable to honour all its contractual cash outflows as they become due. Contractual payments for BDC represent: (i) repayment of debt; (ii) timely disbursement of committed loans, investments and asset-backed securities; and (iii) payments of dividends and operating and administrative expenses.

A lack of marketability could make it expensive or even impossible to liquidate the securities held in the investment portfolios, which could also compromise the short-term continuity of normal business. To avoid any business disruptions, BDC ensures that cash is invested in highly liquid and high-quality securities with active secondary markets that can be sold to a wide range of counterparties without incurring a substantial discount.

ASSET-BACKED SECURITIES DISBURSEMENTS

Liquidity risk is managed separately for asset-backed securities due to the large size and low frequency of each issuance. BDC has allocated a portion of its equity to purchase asset-backed securities. The unused portion is invested in repurchase agreements. During 2010, the maturities of the repurchase agreements did not exceed five business days, as BDC can borrow unlimited funds from the federal government with a notice of five business days.

OTHER CONTRACTUAL DISBURSEMENTS

BDC's liquidity risk management objective is to mitigate this risk by:

- providing for a minimum level of short-term assets over short-term liabilities to cover commitment, market/systemic and operational risks;
- minimizing the unproductive cash balance in the cash account; and
- achieving a return in excess of cost while protecting capital of liquid assets.

Annually, the board of directors approves the treasury risk policy that has been reviewed and recommended for approval by the Asset-Liability Committee (ALCO). The policy establishes risk tolerance parameters, provides delegation of authority to BDC's Treasury Department to transact in approved products and provides limits related to specific measures. The policy governs management, measurement, monitoring and reporting requirements related to liquidity. Paragraph 18(3) of the BDC Act defines the instruments in which the BDC may invest its liquidity.

19. RISK MANAGEMENT (CONTINUED)

BDC's liquidity management practices and processes reinforce its risk mitigation strategies by assigning prudent liquidity levels, concentration requirements and maturity profile requirements.

- The minimum liquidity level covers at least the net outflows scheduled for the next five working days. The maximum liquidity level is not to exceed 15 days of net cash outflows.
- The maturity profile requires 75% of the total liquidity to be invested in securities maturing within 100 days.
- The concentration profile requires that no more than 50% of the portfolio be invested in securities issued or guaranteed by Canadian provinces.

The cash or securities received from derivative counterparties to cover credit risk exposure as per *International Swap and Derivatives Association* agreements are not included in the liquidity level/limits. As at March 31, 2010, the carrying amount of these collaterals is $47,872 ($69,380 in 2009). Refer to Note 13 *Borrowings* for additional information on collaterals held by BDC.

The following tables represent results of BDC risk mitigation as at March 31.

Liquidity level ($ in millions)*	Minimum	Actual	Maximum
As at March 31, 2010	**257**	**353**	**1,002**
As at March 31, 2009	527	550	1,209

* Liquidity levels exclude $6.3 million of Cash equivalents related to securitization (nil in 2009).

Maturity and concentration limits	Limits	**2010**	2009
Investments with maturing within 100 days	Min 75 %	**100 %**	91 %
Canadian provinces	Max 50 %	**0 %**	0 %

The Treasury Risk Management Unit identifies, measures and monitors these liquidity limits daily. It reports any deviations from these liquidity limits to the ALCO and the board of directors. The Treasury Risk Management Unit determines whether they remain valid or changes to assumptions and limits are required in light of internal or external developments. This process ensures that a close link is maintained between liquidity, market and credit risk.

Refer to Note 13 *Borrowings*, Note 21 *Interest Rate Sensitivity*, Note 22 *Guarantees and Contingent Liabilities* and Note 23 *Commitments*, for additional information on contractual maturities of on and off Balance Sheet financial liabilities.

20.

DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are financial contracts that derive their value from underlying changes in interest rates, foreign exchange rates, equity investments, indices, commodity prices or other financial measures.

SWAPS

Swaps are contractual obligations to exchange a series of cash flows on a specific notional amount for a predetermined period. The various swap agreements that BDC enters into are as follows:

- *interest rate swaps*, which involve exchange of fixed- and floating-rate interest payments;
- *cross-currency interest rate swaps*, which involve the exchange of both interest and notional amounts in two different currencies; and
- *equity-linked swaps*, where one of the payments exchanged represents the variation in an equity index over time, and the other is based on agreed fixed or floating-rates.

The main risk associated with these instruments is related to movements in interest rates, foreign currencies and equity prices. BDC's policy is not to use derivative financial instruments for speculative purposes.

20. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

FORWARDS AND FUTURES

Forwards and futures are contractual agreements to either buy or sell currencies or financial instruments at specified prices and dates in the future. *Forwards* are customized contracts transacted in the over-the-counter market. *Futures* are transacted in standardized amounts on regulated exchange markets and are subject to daily cash margining.

The main risks associated with these instruments arise from the possible inability of over-the-counter counterparties to meet the terms of the contracts and from movements in interest rates and foreign exchange rates.

In compliance with BDC's treasury risk policy, BDC transacts in derivative financial instruments to mitigate its foreign exchange and interest rate risk.

FOREIGN EXCHANGE RATE RISK

BDC managed the foreign exchange rate risk of its available-for-sale assets through forward contracts. These foreign exchange forward agreements were designated as cash flow hedging instruments and were marked-to-market with changes in fair value recorded in OCI.

In addition, BDC uses cross-currency swaps to economically hedge its long-term borrowings against foreign exchange rate risk. These swaps are classified as held-for-trading and changes in fair value are recorded in Net unrealized gains or losses on financial instruments.

BDC also uses foreign exchange forward contracts to have an economic hedge for its securities, loans and investments in foreign currencies. These contracts are classified as held-for-trading and the fair value changes are recognized in Net income.

INTEREST RATE AND EQUITY PRICE RISK

BDC enters into interest rate swaps to hedge the financial impact of future interest rate fluctuations in relation to changes in the loan portfolio mix. These contracts have been designated as cash flow hedging instruments. The effective portion of the hedge is recorded in OCI and the ineffective portion of the hedge is recorded in Net interest income.

BDC also uses derivative financial instruments that have an economic hedge for its structured notes. These instruments include interest rate, cross-currency and equity-linked swaps. These instruments have been classified as held-for-trading and the changes in fair value of these transactions are recorded in Net unrealized gains or losses on financial instruments.

The following table provides the fair value of BDC's derivatives portfolio as at March 31 as represented by gross assets and gross liabilities values.

			2010			2009
	Gross assets	**Gross liabilities**	**Net amount**	Gross assets	Gross liabilities	Net amount
Hedging						
Interest rate swap contracts	**701**	**6,334**	**(5,633)**	2,913	8,630	(5,717)
Cross-currency interest rate swap contracts	**–**	**–**	**–**	–	2,210	(2,210)
Total hedging	**701**	**6,334**	**(5,633)**	2,913	10,840	(7,927)
Held-for-trading						
Interest rate swap contracts	**30,786**	**7,524**	**23,262**	66,083	17,976	48,107
Equity-linked swap contracts	**30,824**	**11,896**	**18,928**	61,002	7,692	53,310
Cross-currency interest rate swap contracts and other	**18,973**	**47,479**	**(28,506)**	68,455	14,563	53,892
Currency forward contracts and Futures	**4,495**	**–**	**4,495**	1,035	606	429
Total held-for-trading	**85,078**	**66,899**	**18,179**	196,575	40,837	155,738
Total	**85,779**	**73,233**	**12,546**	199,488	51,677	147,811

20. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

The following table summarizes the notional amount, by term to maturity or repricing date, of derivative instruments. Notional amounts are not recorded as assets or liabilities on the Balance Sheet, as they represent the face amount of the contract to which a rate or a price is applied to determine the amount of cash flows to be exchanged.

	Term to maturity or repricing				**2010**	2009
	Within 1 year	1 to 3 years	3 to 5 years	Over 5 years	**Notional amount**	Notional amount
Hedging						
Interest rate swap contracts						
$CDN payable-fixed	–	100,000	–	–	**100,000**	100,000
% payable-fixed		*4.50*				
$CDN receivable-fixed	–	50,000	40,000	60,000	**150,000**	40,000
% receivable-fixed		*1.13*	*3.14*	*3.01*		
	–	150,000	40,000	60,000	**250,000**	140,000
Cross-currency interest rate swap contracts	–	–	–	–	**–**	49,760
Total hedging	–	150,000	40,000	60,000	**250,000**	189,760
Held-for-trading						
Interest rate swap contracts						
$CDN payable-fixed	–	–	50,000	60,000	**110,000**	110,000
% payable-fixed			*4.31*	*4.17*		
$CDN receivable-fixed	–	–	46,680	312,368	**359,048**	371,615
% receivable-fixed			*4.09*	*4.60*		
Other swap contracts	–	–	–		**–**	11,713
Equity-linked swap contracts	171,900	122,789	177,650	–	**472,339**	829,654
	171,900	122,789	274,330	372,368	**941,387**	1,322,982
Cross-currency interest rate swap contracts and other	14,760	–	7,067	523,898	**545,725**	979,322
	186,660	122,789	281,397	896,266	**1,487,112**	2,302,304
Currency forward contracts and futures	155,021	–	–	–	**155,021**	190,404
Total held-for-trading	341,681	122,789	281,397	896,266	**1,642,133**	2,492,708
Total	341,681	272,789	321,397	956,266	**1,892,133**	2,682,468

The rates represent the weighted average interest rates that BDC has contracted to pay or to receive up to maturity or repricing. The floating side for almost all of the Canadian dollar swap contracts is based on one- or three-month Canadian bankers' acceptance. All amounts in foreign currencies are converted into the Canadian dollar equivalent using the rate of exchange of the derivative contracts.

21.
INTEREST RATE SENSITIVITY

The following tables summarize BDC's interest rate sensitivity position based on the difference between the carrying value of assets and the carrying value of liabilities and equity, grouped by the earlier of contractual repricing or maturity date. The effective yield represents the weighted average effective yield based on the earlier of contractual repricing or maturity date.

CANADIAN DOLLAR TRANSACTIONS

	Floating-rate	Within 3 months	4 to 12 months	1 to 5 years	Over 5 years	Non-rate-sensitive	Allowance and fair value adjustment	Total
Assets								
Cash and cash equivalents	6,805	957,999	–	–	–	–	–	964,804
Effective yield (%)		*0.25*						
Asset-backed securities	–	1,996,482	–	1,278,492	–	–	–	3,274,974
Effective yield (%)		*1.92*		*2.69*				
Loans, net of allowance for credit losses	9,768,997	107,767	399,457	1,744,869	609,658	620,501	(780,588)	12,470,661
Effective yield (%)	*4.84*	*6.97*	*6.92*	*7.15*	*6.87*			
Subordinate financing investments	5,268	2,165	11,416	143,236	14,662	23,045	(6,814)	192,978
Effective yield(1) (%)	*10.36*	*13.72*	*12.50*	*12.42*	*11.07*			
Venture capital investments	–	–	–	–	–	228,436	–	228,436
Derivative assets	–	62,262	44	–	–	–	–	62,306
Other	–	–	–	–	–	224,423	–	224,423
	9,781,070	3,126,675	410,917	3,166,597	624,320	1,096,405	(787,402)	17,418,582
Liabilities and shareholder's equity								
Short-term notes	–	5,509,990	–	–	–	–	–	5,509,990
Effective yield (%)		*0.18*						
Long-term notes	–	5,385,173	46,000	1,543,600	341,957	397,364	–	7,714,094
Effective yield (%)		*0.27*	*1.45*	*1.68*	*1.67*			
Derivative liabilities	–	13,888	–	7,933	3,933	–	–	25,754
Other	–	–	–	–	–	239,459	–	239,459
Shareholder's equity	–	–	–	–	–	3,643,016	–	3,643,016
	–	10,909,051	46,000	1,551,533	345,890	4,279,839	–	17,132,313
Total Balance Sheet gap 2010	9,781,070	(7,782,376)	364,917	1,615,064	278,430	(3,183,434)	(787,402)	286,269
Total Balance Sheet gap 2009	7,754,749	(6,123,463)	229,825	1,223,268	227,344	(1,986,404)	(673,319)	652,000
Total derivative position	–	(854,136)	(55,351)	537,119	372,368	–	–	–
Total gap position 2010	9,781,070	(8,636,512)	309,566	2,152,183	650,798	(3,183,434)	(787,402)	286,269
Total gap position 2009	7,754,749	(6,909,943)	229,825	1,191,017	451,210	(1,391,539)	(673,319)	652,000

(1) Excludes non-interest return.

21. INTEREST RATE SENSITIVITY (CONTINUED)

FOREIGN CURRENCY TRANSACTIONS, EXPRESSED IN CANADIAN DOLLARS

	Floating-rate	Within 3 months	4 to 12 months	1 to 5 years	Over 5 years	Non-rate-sensitive	Allowance and fair value adjustment	Total
Assets								
Cash and cash equivalents	1,081	47,872	–	–	–	–	–	48,953
Effective yield (%)		*0.18*						
Loans, net of allowance for credit losses	59,625						(4,765)	54,860
Effective yield (%)	*3.25*							
Subordinate financing investment	241	–	–	–	–	–	*(16)*	225
Effective yield[1] (%)	*4.35*							
Venture capital investments	–	–	–	–	–	*133,834*	–	*133,834*
Derivative assets	–	18,977	–	–	–	4,496	–	23,473
Other	–	–	–	–	–	–	–	–
	60,947	66,849	–	–	–	138,330	(4,781)	261,345
Liabilities and shareholder's equity								
Short-term notes	–	47,872	–	–	–	–	–	47,872
Effective yield (%)		*0.00*						
Long-term notes	–	–	–	5,989	436,134	10,140	–	452,263
Effective yield (%)				*0.13*	*0.17*			
Derivative liabilities	–	47,479	–	–	–	–	–	47,479
Other	–	–	–	–	–	–	–	–
Shareholder's equity	–	–	–	–	–	–	–	–
	–	95,351	–	5,989	436,134	10,140	–	547,614
Total Balance Sheet gap 2010	**60,947**	**(28,502)**	**–**	**(5,989)**	**(436,134)**	**128,190**	**(4,781)**	**(286,269)**
Total Balance Sheet gap 2009	9,486	92,909	–	(7,302)	(880,271)	133,866	(688)	(652,000)
Total derivative position	**–**	**(474,173)**	**–**	**7,070**	**467,103**	**–**	**–**	**–**
Total gap position 2010	**60,947**	**(502,675)**	**–**	**1,081**	**30,969**	**128,190**	**(4,781)**	**(286,269)**
Total gap position 2009	9,486	(795,470)	–	412	(36,664)	170,924	(688)	(652,000)

[1] Excludes non-interest return

TOTAL TRANSACTIONS, EXPRESSED IN CANADIAN DOLLARS

	Floating-rate	Within 3 months	4 to 12 months	1 to 5 years	Over 5 years	Non-rate-sensitive	Allowance and fair value adjustment	Total
Total gap position for Canadian dollar transactions	9,781,070	(8,636,512)	309,566	2,152,183	650,798	(3,183,434)	(787,402)	286,269
Total gap position for foreign currency transactions	60,947	(502,675)	–	1,081	30,969	128,190	(4,781)	(286,269)
Total gap position 2010	**9,842,017**	**(9,139,187)**	**309,566**	**2,153,264**	**681,767**	**(3,055,244)**	**(792,183)**	**–**
Total gap position 2009	7,764,235	(7,705,413)	229,825	1,191,429	414,546	(1,220,615)	(674,007)	

22.

GUARANTEES AND CONTINGENT LIABILITIES

GUARANTEES

LETTER OF CREDIT AND GUARANTEES

In fiscal 2010, BDC issued "letters of credit and loans guarantees" (guarantees) to support businesses with reduced access to capital through a risk-sharing partnership with other lenders. Those guarantees represent BDC's obligation to make payments to third parties if clients are unable to meet their contractual commitments. Collateral requirements are consistent with BDC collateral requirements for loans. The fee income earned is calculated on a straight-line basis over the life of the instrument and recognized in the Consolidated Statement of Income. The maximum amount payable under the guarantees totalled $61.5 million as at March 31, 2010 (nil in 2009) and the initial term ranged from 12 to 24 months. The total contractual amount is not representative of the maximum potential amount of future payments to be required for these commitments. Recognition of a liability occurs when there is a likelihood that a client will not meet its contractual commitments. As at March 31, 2010, no liability was recognized in BDC's Consolidated Balance Sheet related to these guarantees.

INDEMNIFICATION AGREEMENTS

In the ordinary course of business, BDC enters into many contracts that contain indemnification provisions, such as purchase contracts, employment contracts, service agreements and leasing arrangements. In such contracts, BDC may indemnify counterparties to the contracts for certain aspects of BDC's past conduct if other parties fail to perform, or if certain events occur, such as changes in laws and regulations (including tax legislation), changes in the financial condition of third parties, infringements and breaches of representations and warranties, undisclosed liabilities, and loss caused by the actions of third parties, or as a result of litigation claims by third parties.

These indemnification provisions will vary based upon the contract. In many cases, there are no predetermined amounts or limits included in these indemnification provisions, and the occurrence of contingent events that will trigger payment under them is difficult to predict. The nature of these indemnification contracts is such that BDC cannot reasonably estimate the maximum potential future amount that may be payable to counterparties. Historically, BDC has not made any significant payments under these indemnities and there were no significant accruals for indemnities as of March 31, 2010.

CONTINGENT LIABILITIES

Various legal proceedings arising from the normal course of business are pending against BDC. Management believes that should BDC be found liable pursuant to one or more of these proceedings, the aggregate liability resulting from such proceedings would not be material.

23.
COMMITMENTS

Undisbursed amounts of authorized loans and subordinate financing investments were $1,438,202 at March 31, 2010 ($164,876 fixed-rate; $1,273,326 floating-rate) and are expected to be disbursed during fiscal 2011. The effective interest rates on these commitments vary from 2.25% to 16.00%. These commitments include BDC's share of undisbursed amounts of authorized joint venture financings of $7,845. The following tables present commitment distribution, by geography and industry.

Commitments, by geographic distribution	2010	
Newfoundland and Labrador	39,314	2.7%
Prince Edward Island	1,215	0.1%
Nova Scotia	26,362	1.8%
New Brunswick	50,521	3.5%
Quebec	321,607	22.5%
Ontario	497,728	34.6%
Manitoba	46,056	3.2%
Saskatchewan	41,747	2.9%
Alberta	207,356	14.4%
British Columbia	197,613	13.7%
Yukon	3,762	0.3%
Northwest Territories and Nunavut	4,921	0.3%
Total	1,438,202	100.0%

Commitments, by industry sector	2010	
Manufacturing	241,047	16.8%
Wholesale and retail trade	295,312	20.5%
Tourism	278,855	19.4%
Construction	155,814	10.8%
Transportation and storage	55,198	3.9%
Commercial properties	168,238	11.7%
Business services	59,173	4.1%
Other	184,565	12.8%
Total	1,438,202	100.0%

23. COMMITMENTS (CONTINUED)

The undisbursed amounts of authorized venture capital investments were $222,562 at March 31, 2010, and were related to the following industry sectors.

Commitments, by industry sector		2010
Biotechnology, medical and health	12,222	5.5%
Information technology	6,874	3.1%
Electronics	1,820	0.8%
Communications	2,426	1.1%
Industrial	1,300	0.6%
Total direct investments	24,642	11.1%
Funds	197,920	88.9%
Total	222,562	100.0%

The undisbursed amounts of authorized asset-backed securities investments were $300,000 at March 31, 2010, and were related to the automotive industry sector.

In addition, BDC future minimum lease commitments under operating leases related to the rental of premises are approximately as follows.

2011	21,808
2012	19,918
2013	16,032
2014	15,057
2015	14,243
2016 and later	57,493
Total	144,551

24.

PENSION AND OTHER EMPLOYEE FUTURE BENEFITS

BDC offers defined benefit plans that provide pension, post-employment and post-retirement benefits to eligible employees. The defined benefit pension plans provide benefits based on years of service and average earnings at retirement, fully indexed to the Consumer Price Index. Post-retirement benefit plans include health, dental and life insurance coverage.

BDC funds the registered pension plan in accordance with actuarially determined amounts required to satisfy employee benefit entitlements. Benefits accruing to members of the contributory component of the registered pension plan are also funded by employee contributions. The most recent actuarial valuation for funding purposes for the registered pension plan was performed at December 31, 2008. The next actuarial funding valuation will be performed at December 31, 2009. BDC began funding the supplemental pension plans in 2006 and other benefit plans are unfunded.

For 2010, total contributions to pension and other employee future benefits, consisting of cash contributed by BDC to its funded pension plans and cash payments made directly to beneficiaries for its unfunded other plans, were $41 million ($38 million in 2009).

24. PENSION AND OTHER EMPLOYEE FUTURE BENEFITS (CONTINUED)

The following tables present, in aggregate, information concerning the employee future benefit plans.

	Registered pension plan		Supplemental pension plans		Other plans	
	2010	2009	**2010**	2009	**2010**	2009
Change in accrued benefit obligation						
Balance at beginning of year	**490,269**	581,846	**49,728**	57,989	**103,411**	123,727
Current service cost	**9,588**	16,401	**880**	1,064	**4,000**	6,279
Interest cost on benefit obligation	**35,851**	32,367	**3,577**	3,189	**7,526**	6,662
Employee contributions	**8,059**	7,487	**–**	–	**–**	–
Benefits paid	**(26,845)**	(26,997)	**(2,540)**	(2,166)	**(5,866)**	(5,567)
Actuarial loss (gain)	**128,593**	(120,835)	**13,408**	(10,348)	**11,239**	(27,690)
Balance at end of year[1]	**645,515**	490,269	**65,053**	49,728	**120,310**	103,411
Change in fair value of plan assets						
Balance at beginning of year	**486,812**	606,849	**29,036**	22,271	**–**	–
Employee contributions	**8,059**	7,487	**–**	–	**–**	–
Employer contributions	**28,993**	20,302	**9,755**	10,115	**–**	–
Actual return (loss) on plan assets during the year	**89,626**	(120,829)	**2,542**	(1,184)	**–**	–
Benefits paid	**(26,845)**	(26,997)	**(2,540)**	(2,166)	**–**	–
Balance at end of year[1]	**586,645**	486,812	**38,793**	29,036	**–**	–
Deficit at end of year	**(58,870)**	(3,457)	**(26,260)**	(20,692)	**(120,310)**	(103,411)
Employer contributions after measurement date	**7,259**	5,272	**4,592**	9,755	**186**	277
Unamortized past service gain	**–**	–	**–**	–	**(2,098)**	(3,777)
Unamortized net actuarial loss (gain)	**197,045**	134,304	**20,766**	9,376	**10,065**	(1,463)
Accrued benefit asset (liability) at end of year	**145,434**	136,119	**(902)**	(1,561)	**(112,157)**	(108,374)

[1] Supplemental pension plans and other plans are not fully funded.

Pension and other post-retirement costs are included in salaries and benefits in Note 17 and are as follows.

	Registered pension plan		Supplemental pension plans		Other plans	
	2010	2009	**2010**	2009	**2010**	2009
Defined benefit costs						
Current service cost	**9,588**	16,401	**880**	1,064	**4,000**	6,279
Interest cost on benefit obligation	**35,851**	32,367	**3,577**	3,189	**7,526**	6,662
Actual (return) loss on plan assets	**(89,626)**	120,829	**(2,542)**	1,184	**–**	–
Actuarial loss (gain) on benefit obligation	**128,593**	(120,835)	**13,408**	(10,348)	**11,239**	(27,690)
Costs arising in the period	**84,406**	48,762	**15,323**	(4,911)	**22,765**	(14,749)
Differences between costs arising in the period and costs recognized in the period in respect of:						
Return (loss) on plan assets	**55,192**	(164,854)	**1,314**	(2,229)	**–**	–
Actuarial (gain) loss	**(117,933)**	125,004	**(12,704)**	12,099	**(11,728)**	28,514
Past service gain	**–**	–	**–**	–	**(1,679)**	(1,679)
Transitional (asset) obligation	**–**	(6,721)	**–**	450	**–**	–
Defined benefit cost for the year ended March 31	**21,665**	2,191	**3,933**	5,409	**9,358**	12,086

24. PENSION AND OTHER EMPLOYEE FUTURE BENEFITS (CONTINUED)

As at December 31, the fair value of assets in BDC's registered and supplemental pension plans was as follows.

Investment type		**2010**		2009
Cash and short-term investments	**8,833**	**1.4 %**	12,685	2.5 %
Bonds	**221,053**	**35.3 %**	212,771	41.2 %
Equity investments	**373,759**	**59.8 %**	273,719	53.1 %
Other assets less liabilities	**21,793**	**3.5 %**	16,673	3.2 %
Net assets available for benefits	**625,438**	**100.0 %**	515,848	100.0 %

The significant actuarial assumptions adopted in measuring BDC's accrued benefit obligations and annual benefit cost (weighted averages) are as follows.

	Registered pension plan		**Supplemental pension plans**		**Other plans**	
	2010	2009	**2010**	2009	**2010**	2009
Significant actuarial assumptions used to determine the accrued benefit obligations						
Discount rate at beginning of year	**7.25%**	5.50%	**7.25%**	5.50%	**7.25%**	5.25% - 5.50%
Discount rate at end of year	**5.75%**	7.25%	**5.75%**	7.25%	**5.75%**	7.25%
Significant actuarial assumptions used to determine the accrued benefit cost						
Discount rate at beginning of year	**7.25%**	5.50%	**7.25%**	5.50%	**7.25%**	5.25% - 5.50%
Expected long-term rate of return on plan assets(1)	**7.00%**	7.25%	**3.50%**	3.63%	–	–

The average rate of compensation increase is expected to be inflation, which is assumed to be 2.50% (in 2009, 2.50%) plus 0.5% for productivity gains, plus an adjustment for merit and promotion.

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(1) The expected long-term rate of return on plan assets is calculated using assets valued at fair value.

For measurement purposes, cost trends were assumed to be as follows:

Medical costs related to drugs:

> 9% in 2010 reducing by 0.67% each year to 5% in 2016 and subsequent years
(10% in 2009 reducing by 0.67% each year to 6% in 2015 and subsequent years);

Other medical costs:

> 5% in 2010 reducing by 1% each year to 3% in 2012 and subsequent years
(5% in 2009 reducing by 1% each year to 3% in 2011 and subsequent years); and

Dental costs:

> 6% in 2010 reducing by 1% each year to 4% in 2012 and subsequent years
(6% in 2009 reducing by 1% each year to 4% in 2011 and subsequent years).

24. PENSION AND OTHER EMPLOYEE FUTURE BENEFITS (CONTINUED)

SENSITIVITY OF ASSUMPTIONS

The impact of changing the key weighted-average economic assumptions used in measuring the net periodic pension and other benefit costs is summarized in the table below.

		Registered pension plan	Supplemental pension plans	Other plans
Increase (decrease) in				
Expected rate of return on assets				
Impact of:	1% increase	(4,919)	(175)	–
	1% decrease	4,919	175	–
Discount rate				
Impact of:	1% increase	(10,692)	(732)	(542)
	1% decrease	12,473	856	705
Rate of compensation increase				
Impact of:	0.25% increase	614	87	14
	0.25% decrease	(611)	(143)	(14)
Assumed overall health care cost trend rates				
Impact of:	1% increase	–	–	1,626
	1% decrease	–	–	(1,257)
on the aggregate of the service and interest cost components of post-retirement benefits other than pension cost for the period				
Assumed overall health care cost trend rates				
Impact of:	1% increase	–	–	15,741
	1% decrease	–	–	(12,435)
on post-retirement benefits other than pension accrued benefit obligation at March 31, 2010				

25.

RELATED PARTY TRANSACTIONS

As at March 31, 2010, BDC had $5,510 million outstanding in short-term notes and $6,735 million in long-term notes with Her Majesty in Right of Canada acting through the Minister of Finance ($1,915 million in short-term notes and $5,369 million in long-term notes at March 31, 2009).

This borrowing is in accordance with the FAA and the BDC Act and is compliant with (i) BDC's borrowing plan, which has been approved by the Minister of Finance; and (ii) the *Master Loan Framework for Interim Funding from the Consolidated Revenue Fund to Business Development Bank of Canada*, dated February 14, 2008.

Accrued interest on borrowings includes $3 million payable to the Minister of Finance as at March 31, 2010 ($4 million at March 31, 2009). BDC also recorded $27 million of interest expense for fiscal 2010 relating to the borrowing with the Minister of Finance ($104 million in 2009).

In order to comply with BDC's risk management policies, certain short-term and long-term notes with the Minister of Finance were repurchased during the year. This resulted in a net realized loss of $7 million ($2 million net realized loss in 2009).

BDC is also related to all Government of Canada-created departments, agencies and Crown corporations. BDC enters into transactions with these entities in the normal course of business, under terms and conditions similar to those that apply to unrelated parties.

26.

COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year's presentation.

CORPORATE GOVERNANCE

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OVER THE LAST DECADE, BDC HAS ADOPTED ROBUST CORPORATE GOVERNANCE POLICIES AND STRUCTURES. DURING THE PAST YEAR, THE RECESSION AND CREDIT CRISIS TESTED THESE STRUCTURES AND BDC'S ABILITY TO FULFILL ITS MANDATE TO SUPPORT ENTREPRENEURS. BDC'S BOARD OF DIRECTORS WAS ABLE TO REACT SWIFTLY TO STEER BDC—AND ITS CLIENTS—THROUGH THE ECONOMIC CHALLENGES.

The board is composed of seasoned businesspeople who set the direction of BDC and who hold it accountable. The board members bring with them significant financial expertise and steadfast dedication to BDC's mandate.

This year, board members faced exceptional challenges in monitoring complex programs such as the Canadian Secured Credit Facility and the Business Credit Availability Program. This required a considerable amount of work. The board held twice as many meetings as planned.

The board also recommended the reappointment of the president and CEO, Mr. Jean-René Halde. The shareholder reappointed Mr. Halde in March 2010, showing its confidence in his vision for BDC, his management capacity and his keen understanding of entrepreneurs' needs.

BDC has successfully cooperated with the government to define the profile and skills that board members require to help BDC fulfill its mandate. This has resulted in a diverse, talented board, well equipped to steward BDC.

STATEMENT FROM THE BOARD OF DIRECTORS

We hold BDC accountable by overseeing its activities to ensure they align with its statutory role, and that BDC fulfills its mandate in accordance with the highest standards of corporate governance.

Except for the president and CEO, we are all independent of management. None, except the president, is a BDC employee. We have first-hand experience in finance, business management and entrepreneurship. Together, we have the required mix of skills and experience needed for our stewardship role.

Our core challenge is to manage the tension inherent in BDC's role. We have a mandate to support entrepreneurs—an inherently risky activity. We must also support our shareholder in implementing new programs to help stimulate economic activity. In doing so, however, we must remain commercially viable.

PARLIAMENT: DIRECTION AND OVERSIGHT

Our principal guidelines are parliamentary statutes. The *Business Development Bank of Canada Act* sets out BDC's purpose, powers and duties. The *Financial Administration Act*, Part X, sets out the control and accountability regime for Crown corporations.

Like other Crown corporations, BDC is subject to other laws, such as the *Federal Accountability Act*, the *Privacy Act*, the *Access to Information Act*, the *Canadian Environmental Assessment Act* and the *Official Languages Act*, as well as numerous regulations.

The Auditor General of Canada jointly with an external audit firm audit BDC every year. They also perform a special examination of BDC at least every ten years (five years prior to fiscal 2010). This examination is a performance audit. It goes beyond strictly financial issues to examine systems and practices related to economy, efficiency and effectiveness.

In the most recent examination report, which was released in 2009, the auditors favourably reviewed BDC, writing that BDC has "sound systems and practices in areas such as governance, strategic planning, human resources and financing activities."

Every year, Parliament receives BDC's annual report, as well as a summary of its annually updated five-year corporate plan, which has been approved by the board of directors, the Treasury Board of Canada, Secretariat, and our Minister.

GOVERNMENT AND INDUSTRY
We look to Treasury Board of Canada, Secretariat, for guidance and expertise on public sector governance practices. BDC meets or exceeds all the governance standards that Treasury Board recommends.

We also look to private sector organizations for best practices to emulate.

> A JANUARY 2010 REPORT BY THE CONFERENCE BOARD OF CANADA, *LESSONS FROM THE RECESSION AND FINANCIAL CRISIS*, NOTED **THAT BDC PROVIDED EXCEPTIONAL CREDIT SUPPORT DURING THE RECESSION, WHICH HELPED SPEED THE HEALING OF THE CANADIAN FINANCIAL SYSTEM.**

OUR DUTIES
Within the parameters set by Parliament and government, our duties are to

> approve BDC's strategic direction and corporate plan to meet its public policy mandate, and monitor progress;

> set performance targets and monitor progress;

> ensure that BDC is identifying and managing its risks;

> ensure the highest standards of corporate governance;

> establish compensation policies;

> review and approve management's succession plan, a task that includes approving appointments to the Senior Management Team, and evaluating the performance of the president and CEO;

> review BDC's internal controls and management information systems;

> oversee communications and public disclosure;

> oversee BDC's pension plans, and establish its fund policies and practices; and

> approve financing and investment activities beyond management's authority.

The Board Code of Conduct incorporates the same basic principles as the Employee Code of Conduct, Ethics and Values. Every year, we all affirm that we have complied with the code. The segregated roles and responsibilities of the chairman and the president, already documented, reflect current best practices. We declare possible conflicts of interest, if any.

We work very closely with senior managers, but also meet regularly in camera, without their presence.

One of five board committees initially examines most of the work that comes before us. Written terms of reference codify each committee's mandate. These terms are available to the public at www.bdc.ca. We regularly review and revise the membership of these committees to ensure they reflect the strengths of the entire board.

All five committees are independent of management, with one exception: the president and CEO is a member of the Credit/Investment and Risk Committee, which authorizes large transactions within certain limits. We have appropriately high levels of financial literacy, as well as the broader skills and competencies required to oversee the management of a large financial organization.

COMMITTEES

THE AUDIT COMMITTEE

CHAIR
Stan Bracken-Horrocks

NUMBER OF MEETINGS
6

MEMBERS
Eric Boyko
Brian Hayward
Jean Martel
Sarah Raiss
Thomas R. Spencer
EX OFFICIO
Jean-René Halde
John A. MacNaughton

The Audit Committee promotes an overall corporate culture of quality financial reporting and ethical behaviour. Our main duties are to

> review and advise the board on annual financial statements before BDC discloses them to the public;

> review financial disclosures;

> review the adequacy and effectiveness of internal controls, including information technology security and controls, and, in particular, major accounting and financial reporting systems;

> oversee BDC's standards of integrity and conduct;

> oversee the disclosure of wrongdoing process;

> review the terms of engagement—including compensation for private sector individuals—of auditors and special examiners who report directly to the committee and are accountable to the board;

> give advice and recommendations about the appointments and terms of auditors and special examiners;

> review and advise the board on the audit of the annual financial statements, the scope of the special examination, and the special examination report;

> consider the appointment and work of the internal auditor, who reports directly to the committee and administratively to the president and CEO; and

> review directors' and officers' expenses.

THE CREDIT/INVESTMENT AND RISK COMMITTEE

CHAIR
Thomas R. Spencer

NUMBER OF MEETINGS
38

MEMBERS
Eric Boyko
Stan Bracken-Horrocks
Jean-René Halde
Prashant Pathak
Rosemary Zigrossi
EX OFFICIO
John A. MacNaughton

The Credit/Investment and Risk Committee's main duties are to

> identify and manage BDC's principal risks;

> regularly review the enterprise risk management policy, and policies and processes concerning credit risk, market risk, operational risk and other principal risks;

> review reports and indicators related to portfolio management, including indicators related to capital adequacy review and compliance, industry-specific studies, and portfolio management strategies;

> approve loans and investments that exceed the delegated authorities of senior management; and

> review policies and guidelines related to the delegation of authority.

THE GOVERNANCE AND NOMINATING COMMITTEE

CHAIR
John A. MacNaughton

NUMBER OF MEETINGS
5

MEMBERS
Stan Bracken-Horrocks
Sarah Raiss
Thomas R. Spencer
Rosemary Zigrossi
EX OFFICIO
Jean-René Halde
John A. MacNaughton

The Governance and Nominating Committee helps the board fulfill its corporate governance responsibilities. Our responsibilities include

- continually reviewing best practices and regulations related to governance in Canada and, if necessary, recommending changes to BDC's approach;
- annually reviewing BDC's corporate governance policies, including the Board Code of Conduct and the Employee Code of Conduct, Ethics and Values;
- annually assessing the board's compliance with these policies;
- regularly reviewing the mandates, structures, and memberships of the board and its committees;
- developing selection criteria for the president and CEO position;
- recommending candidates for the reappointment of the CEO, as well as directors;
- reviewing and annually approving required skills for directors;
- developing processes to assess the performance of the board, its committees and its individual members; and
- ensuring that comprehensive director orientation and continuous training programs are in place.

For the mandates of the board committees, please see www.bdc.ca.

THE HUMAN RESOURCES COMMITTEE

CHAIR
Sarah Raiss

NUMBER OF MEETINGS
8

MEMBERS
Sue Fawcett
Brian Hayward
Henry K.S. Lee
Jean Martel
Rick Perkins
EX OFFICIO
Jean-René Halde
John A. MacNaughton

The Human Resources Committee's main duties are to

- assess the "tone at the top" established by senior management with respect to integrity and ethics;
- oversee the human resources strategy to ensure it aligns with the corporate plan;
- review—and, if appropriate, recommend to the board for approval—the CEO's recommendations for appointments of senior management committee members, the treasurer, the vice president and chief auditor, and the ombudsman, as well as any CEO proposal for major changes to the organization's structure;
- assess the CEO's objectives and performance;
- review compensation for senior executives;
- review and approve the design of compensation programs and payments;
- receive and examine the actuarial evaluation reports, and approve pension fund and financial statements;
- approve performance measures and metrics; and
- ensure that there is a valid succession plan in place.

THE PENSION FUNDS INVESTMENT COMMITTEE

CHAIR
Rosemary Zigrossi

NUMBER OF MEETINGS
6

MEMBERS
Sue Fawcett
Henry K.S. Lee
Prashant Pathak
Rick Perkins
Frank Watters (observer)
EX OFFICIO
Jean-René Halde
John A. MacNaughton

The Pension Funds Investment Committee's main duties are to

- monitor, and advise the board on, all matters related to the investment of the funds' assets;
- ensure that investments comply with established policies;
- recommend to the board the appointment, termination and replacement of external investment managers;
- monitor the performance of these managers; and
- recommend asset allocation and investment policies and strategies.

EMPLOYEE CODE OF CONDUCT, ETHICS AND VALUES

The Employee Code of Conduct, Ethics and Values affirms BDC's fundamental tenets: ethical behaviour, client connection, team spirit, accountability and work/life balance. The code applies to all employees. It sets out the principles that guide and shape our business activities: compliance with the law, trust, fairness, objectivity, integrity, and corporate and individual responsibility.

We keep abreast of best practices and review the code regularly to improve our internal governance. The code includes the policy on personal trading for employees, the policy on disclosure of wrongdoing in the workplace and the anti-fraud directive.

If a member of Parliament, senator or director exerts undue pressure in making a referral to a BDC employee, the BDC referral policy requires the employee to report this situation to senior management, which in turn informs the board of directors.

BOARD AND BOARD COMMITTEE MEETINGS AND ATTENDANCE

	Board		Audit		Credit/ Investment and Risk		Governance		Human Resources		Pension Funds Investment		Total meetings	
Director	Attendance	Total	Attendance	Total	Attendance	Total	Attendance	Total	Attendance	Total	Attendance	Total	Attendance	Total
Christiane Bergevin (1)	6	8			10	13	3	3			2	3	21	27
Eric Boyko	14	16	5	6	28	38							47	60
Stan Bracken-Horrocks	11	16	5	6	34	38	5	5					55	65
Roger Demers (2)	3	3											3	3
Sue Fawcett	15	16							8	8	6	6	29	30
Jean-René Halde (3)	16	16			27	38							43	54
Brian Hayward	14	16	6	6					8	8			28	30
Henry K.S. Lee	15	16							7	8	6	6	28	30
John A. MacNaughton (3)	15	16					5	5					20	21
Jean Martel	14	16	4	6					7	8			25	30
Prashant Pathak	11	16			25	38					5	6	41	60
Rick Perkins	15	16							7	8	5	6	27	30
Sarah Raiss	15	16	6	6			5	5	8	8			34	35
Thomas R. Spencer	14	16	6	6	31	38	5	5					56	65
Rosemary Zigrossi (4)	16	16			31	38	2	2			3	3	52	59
Total number of meetings		16		6		38		5		8		6		
Total number of directors	15-1		6		7-1		6-1		6		6-1			

(1) Resigned August 18, 2009.

(2) Was appointed January 14, 2010.

(3) As chairman and as president and CEO, respectively, Mr. MacNaughton and Mr. Halde are ex officio members of all committees (when they are not formally members) and attend meetings accordingly.

(4) Was appointed chairperson of the Pension Funds Investment Committee on August 26, 2009.

BOARD OF DIRECTORS

(at March 31, 2010)

JOHN A. MACNAUGHTON
Chairman of the Board
BDC
Toronto, Ontario

John A. MacNaughton joined the BDC board of directors in August 2007. He is the chairman of CNSX Markets Inc. and vice chairman of the University Health Network. He is a director of Nortel Networks Corporation and TransCanada Corporation, and a Member of the Order of Canada.

Previously, he had spent 31 years with Nesbitt Burns Inc. and its predecessor companies, serving as president of Burns Fry and then Nesbitt Burns from 1989 to 1999. He served from 1999 to 2005 as the founding president and CEO of the Canada Pension Plan Investment Board.

JEAN-RENÉ HALDE
President and Chief Executive Officer
BDC
Montreal, Quebec

Jean-René Halde joined BDC as president and CEO in June 2005 and was reappointed in 2010.

Before joining BDC, Mr. Halde had 30 years of management and entrepreneurial experience, holding CEO positions at leading companies including Metro-Richelieu Inc., Culinar Inc. and Livingston Group Inc. He has also served on the boards of many leading private, public and not-for-profit organizations. He presently serves as vice chairman of the Conference Board of Canada and as director of the Montreal General Hospital Foundation.

He holds an MA in Economics from the University of Western Ontario and an MBA from Harvard Business School.

ERIC BOYKO
President
Stingray Digital Inc
Montreal, Quebec

Eric Boyko joined the BDC board of directors in August 2007. He is the co-founder and president of Stingray Digital Inc., an international company dedicated to digital media. He is also a board member of the Montreal Development Program, the Young Presidents' Organization and the Montreal Economic Institute.

Previously, Mr. Boyko founded and was president of eFundraising.com Corporation. He is also a winner of the Top 40 Under 40 prize for 2006.

A graduate of McGill University, he has a specialization in accounting and became a certified general accountant in 1997.

STAN BRACKEN-HORROCKS
President
SE Bracken-Horrocks Investments Ltd.
Vancouver, British Columbia

Stan Bracken-Horrocks joined the BDC board of directors in April 2005 and is currently on the board of the Vancouver Police Foundation.

Mr. Bracken-Horrocks is a retired partner at PricewaterhouseCoopers. A chartered accountant, he began at PricewaterhouseCoopers in 1962 and gained extensive experience with boards of directors of public companies and their audit and finance committees. Mr. Bracken-Horrocks is a past president of the Institute of Chartered Accountants of British Columbia.

ROGER DEMERS
President
Roger Demers & Associates Inc.
Quebec City, Quebec

Roger Demers joined the BDC board of directors in January 2010. He is an honorary colonel in the Canadian Air Force and president of a number of charitable foundations. He is also a fellow of the Ordre des comptables agréés du Québec.

Mr. Demers previously held various positions with the accounting firm Raymond Chabot Grant Thornton, notably as regional vice president.

He completed his chartered accountant training at Université Laval in 1970. He is also a member of the Cercle des Administrateurs de Sociétés Certifiés.

SUE FAWCETT
President
Fawcett Financial Inc.
Calgary, Alberta

Sue Fawcett joined the BDC board of directors in April 2008. After serving as a vice president and investment advisor at a major financial institution, she became president of Fawcett Financial Inc., a private firm providing strategic advice to early-stage companies. Ms. Fawcett is also a member of the Institute of Corporate Directors and the Calgary CFA Society.

Ms. Fawcett previously served on the boards of the Ottawa-Carleton Economic Development Corporation, the Riverside Hospital Foundation and the Ottawa Ballet.

She received her chartered financial analyst designation in 2006 and holds a BComm from the University of Calgary.

BRIAN HAYWARD
President
Aldare Resources
Winnipeg, Manitoba

Brian Hayward joined the BDC board of directors in June 2008. He is president of Aldare Resources, a business consultancy that provides strategic advisory and governance services.

From 1991 until 2007, he was CEO of Agricore United, the largest agribusiness in Western Canada. He also has provided leadership to many non-profit organizations, including the Royal Winnipeg Ballet, the Conference Board of Canada and the Arthritis Society. Mr. Hayward serves on public and private company boards, including Glacier Media Inc., Ridley Inc. and Wellington West.

Mr. Hayward holds a master's degree in agricultural economics from McGill University and is a graduate of the Directors College of McMaster University's DeGroote School of Business.

HENRY K.S. LEE
Chief Financial Officer and Vice Chairman
Tom Lee Group
Vancouver, British Columbia

Henry K.S. Lee joined the BDC board of directors in August 2008. He is the chief financial officer and vice chairman of the Tom Lee Group, a company active in real estate investments, as well as in the retailing and distribution of musical instruments and equipment in Canada and China.

Mr. Lee serves on several boards, is the president of the Museum of Making Music advisory board and has served as chairman of the Vancouver Board of Trade.

He holds a BASc in civil engineering from the University of British Columbia and an MBA from the University of Toronto.

JEAN MARTEL
Partner
Lavery, LLP
Montreal, Quebec

Jean Martel joined the BDC board of directors in September 2006. He is a partner at Lavery, a Quebec-based law firm, where he has been practising securities, financial and regulatory law in Montreal since 1999. He serves on the boards of directors of TMX Group Inc., TSX Inc., the TSX Ventures Exchange and the Bourse de Montréal.

From 1995 to 1999, he was chairman of the Commission des valeurs mobilières du Québec and sat on the technical committee of the International Organization of Securities Commissions. From 1988 to 1994, as assistant deputy minister of finance, he had overall responsibility for financial sector policy in the province of Quebec.

PRASHANT PATHAK
Managing Partner
ReichmannHauer Capital Partners
Toronto, Ontario

Prashant Pathak joined the BDC board of directors in July 2008 and is a managing partner at ReichmannHauer Capital Partners. He has extensive international experience, having worked in Europe, the Middle East and Southeast Asia.

Previously, he was a partner at McKinsey & Company Inc., and held several management and field operations positions at Halliburton and Schlumberger.

Mr. Pathak holds an MBA with distinction from INSEAD and a BTech degree in electrical engineering from the Indian Institute of Technology (IIT). He also has a diploma in fuzzy logic from IIT and is a member of the Young Presidents' Organization.

RICK PERKINS
Vice President, Communications
and Corporate Responsibility
Nova Scotia Liquor Corporation
Halifax, Nova Scotia

Rick Perkins joined in the BDC board of directors in March 2006. A marketing, communications and public affairs professional, he is the Nova Scotia Liquor Corporation vice president, communications and corporate responsibility.

Mr. Perkins was a co-founder of Genoa Management Inc., a Toronto-based capital markets counsel firm. He has worked with Newcourt Credit Group Inc., the Canadian Imperial Bank of Commerce, and the Government of Canada's departments of finance and foreign affairs.

Mr. Perkins holds an MBA from the Sobey School of Business, Saint Mary's University, and has been inducted into the latter's Hall of Academic Excellence.

SARAH RAISS
Executive Vice President of Corporate Services
TransCanada Corporation
Calgary, Alberta

Sarah Raiss joined the BDC board of directors in April 2008. She is currently executive vice president of corporate services with TransCanada Corporation in Calgary. She sits on the board of governors of the Calgary Petroleum Club, the Treasury Board advisory committee on senior-level retention and compensation, and the Harvard Kennedy School Women's Leadership Board.

Ms. Raiss was president of S.E. Raiss Group Inc., a consulting firm specializing in strategy, culture change and merger integration.

She has a BSc in applied mathematics and an MBA from the University of Michigan.

THOMAS R. SPENCER
Toronto, Ontario

Thomas R. Spencer joined the BDC board of directors in January 2008. He sits on the boards of The Data Group Income Fund and Kruger Inc. He is also a member of the TD private equity investors advisory committee.

He is retired from TD Bank Financial Group, where he held various positions, including vice president, corporate and investment banking; vice president, merchant banking services; senior vice president, risk management policy group; executive vice president, risk management; and vice chair of risk management.

Mr. Spencer holds an MBA and a BA in economics from York University.

ROSEMARY ZIGROSSI
Toronto, Ontario

Rosemary Zigrossi joined the BDC board of directors in April 2008. She was vice president, asset mix and risk with the Ontario Teachers' Pension Plan, where she has also served as vice president of venture capital and as controller.

Previously, she was assistant vice president at J.P. Morgan Bank of Canada and a senior auditor with KPMG. She is a chartered accountant and a member of the Chartered Financial Analyst Institute, and has held directorship roles in a number of start-up companies.

Ms. Zigrossi holds a BComm in finance from the University of Toronto, has completed the Harvard Business School management development program and is a graduate of the Institute of Corporate Directors.

SENIOR MANAGEMENT TEAM

(March 31, 2010)

From left to right:

JERÔME NYCZ
**Vice President,
Strategy and Enterprise
Risk Management**

Jérôme Nycz joined BDC in 2002. He is responsible for BDC's strategic planning, enterprise risk management and knowledge management, including corporate and economic research. As such, he is responsible for developing the indicators by which BDC measures its performance.

Previously, Mr. Nycz worked in the federal government, notably as senior economist and policy advisor at Finance Canada, Industry Canada and National Defence. He has also worked at Export Development Canada and as an investment officer at the Canadian Consulate in Boston. He is a member of the board of CIRANO and the Advisory Board for International Competitiveness of the Desautels Faculty of Management of McGill University.

Mr. Nycz holds an IMBA from Hartford University.

EDMÉE METIVIER
**Executive Vice President,
Financing and Consulting**

Edmée Métivier joined BDC in 2000. She is responsible for developing and implementing strategies to sustain the growth of BDC Financing, BDC Consulting and Aboriginal Banking, and oversees credit risk management.

Previously, Ms. Métivier was with the Royal Bank, where she held a number of operational positions, including vice president, small and medium-sized enterprises.

She is a member of the Desautels Faculty of Management advisory board at McGill University, the McGill International Executive Institute advisory board and the Canadian Youth Business Foundation board of directors.

She holds an MA in practicing management from the University of Lancaster in England.

PAUL BURON
**Executive Vice President
and Chief Financial Officer**

Paul Buron joined BDC in 2006. He is responsible for finance, information technology, treasury and securitization.

Mr. Buron has acquired broad experience through leadership roles in major corporations such as Société générale de financement du Québec, Donohue Inc. and the TVA Group Inc., where he was senior vice president and chief financial officer.

He holds a BBA from HEC Montréal and is a member of the Ordre des comptables agréés du Québec.

JEAN-RENÉ HALDE
**President and Chief
Executive Officer**

Jean-René Halde joined BDC as president and CEO in June 2005 and was reappointed in 2010.

Before joining BDC, Mr. Halde had 30 years of management and entrepreneurial experience, holding CEO positions at leading companies including Métro-Richelieu Inc., Culinar Inc. and Livingston Group Inc. He has also served on the boards of many leading private, public and not-for-profit organizations. He presently serves as vice chairman of the Conference Board of Canada and as director of the Montreal General Hospital Foundation.

He holds an MA in Economics from the University of Western Ontario and an MBA from Harvard Business School.

MICHEL BERGERON
Vice President, Corporate Relations

Michel Bergeron joined BDC in 1999. He is responsible for strategic alliances, government relations, media relations, internal and external communications, and BDC's website and branding.

At BDC, Mr. Bergeron has held various field positions providing financing solutions to small and medium-sized enterprises, as well as various corporate positions, such as director, corporate planning, and director, strategic and business solutions. Previously, Mr. Bergeron was an international trade economist in the federal government and participated in bilateral and multilateral trade negotiations.

He is a lawyer and holds an MA in international relations.

JACQUES SIMONEAU
Executive Vice President, Investments

Jacques Simoneau joined BDC in 2006. He is responsible for the venture capital and subordinate financing portfolios. He is also a director of Transat A.T. Inc., Sustainable Development Technology Canada, and Canada's Venture Capital and Private Equity Association. He is a member of the University of Montreal's Faculty of Medicine's advisory committee.

Previously, Mr. Simoneau was CEO of Hydro-Québec Capi-Tech Inc., senior vice president, investments at Fonds de solidarité FTQ, and CEO of Société Innovatech du sud du Québec.

An engineer, he holds an MSc from Université Laval and a PhD from Queen's University.

LOUISE PARADIS
Senior Vice President, Legal Affairs and Corporate Secretary

Louise Paradis re-joined BDC in 2004. She provides legal support to all business units, as well as the board of directors, and is responsible for developing and implementing strategies on records management.

Previously, Ms. Paradis was responsible for legal affairs, human resources, the corporate secretariat and administration at the Canadian office of Société Générale, and she was director of operations at Société Générale for two years. She began her career at BDC as legal counsel. She is a member of the board of ProMetic.

She holds an LLL from McGill University and is a member of the Barreau du Québec.

MARY KARAMANOS
Senior Vice President, Human Resources

Mary Karamanos joined BDC in 2002. She is responsible for developing and implementing BDC's human resources strategy. She is active in the community and supports a number of children's charities.

Ms. Karamanos has more than 20 years' experience in strategic human resources and has held senior positions at Corby Distilleries in Canada and Allied Domecq, Spirits and Wine U.S.A. Inc.

She holds a BA in industrial relations from McGill University and the certified compensation professional designation from World at Work.

FIVE-YEAR OPERATIONAL AND FINANCIAL SUMMARY

for the years ended March 31 ($ in thousands)

Operational statistics	**2010**	2009	2008	2007	2006
BDC Financing					
Committed to clients as at March 31					
Amount	**14,783,510**	12,176,290	10,951,760	10,115,995	9,515,927
Number of clients	**28,331**	27,617	27,418	26,643	25,497
Acceptances*					
Amount	**4,343,068**	2,831,534	2,906,667	2,691,571	2,462,032
Number	**8,014**	7,749	9,143	9,394	8,402
BDC Subordinate Financing					
Committed to clients as at March 31					
Amount	**211,086**	176,568	171,991	168,725	160,246
Number of clients	**346**	351	341	316	305
Acceptances*					
Amount	**66,653**	46,344	48,660	58,407	47,126
Number	**68**	92	107	130	104
BDC Venture Capital**					
Committed to clients as at March 31					
Amount	**734,932**	804,665	749,107	747,857	654,876
Number of clients	**118**	159	173	192	193
Authorizations					
Amount	**84,591**	137,385	130,484	150,733	140,016
Number	**43**	55	87	71	83
BDC Consulting					
Number of mandates	**2,504**	2,720	2,770	2,451	2,037
BDC Securitization					
Committed to clients as at March 31 (amount)	**3,575,327**	–	–	–	–
Authorizations (amount)	**3,653,740**	–	–	–	–
Performance indicators					
Client satisfaction level	**91%**	92%	93%	93%	92%
Employee engagement level	**77%**	75%	76%	80%	78%
Efficiency ratio***	**44.3%**	41.4%	48.0%	50.2%	48.9%
BDC Financing portfolio	**13,310,875**	11,117,218	10,014,114	9,128,145	8,627,199
Adjusted return on common equity	**0.1%**	4.8%	4.7%	8.5%	9.2%
BDC Consulting revenue	**28,129**	27,435	24,802	23,523	21,570

Amount committed to clients represents portfolio outstanding and amount undisbursed, at cost.

* For reporting purposes, BDC Financing and Subordinate Financing data prior to 2007 are based on net authorizations.

** For BDC Venture Capital commitment to clients, please see Note 9 (page 74) and Note 23 (page 96) to the Consolidated Financial Statements.

*** Includes both BDC Financing and BDC Subordinate Financing. The fiscal 2009 ratio has been restated to exclude BDC Securitization expenses of $1 million.

($ in thousands)

Financial information	**2010**	2009	2008	2007	2006
Statement of Income and Comprehensive Income for the years ended March 31					
Financing*	**76,232**	194,028	160,878	167,992	141,060
Subordinate Financing	**10,214**	6,760	11,007	7,945	13,682
Venture Capital	**(74,137)**	(106,291)	(82,801)	(33,604)	(12,779)
Consulting	**(4,645)**	(2,930)	(4,521)	(4,326)	(3,782)
Securitization	**(1,605)**	(1,000)	–	–	–
Net income	**6,059**	90,567	84,563	138,007	138,181
Other comprehensive income (loss)	**5,710**	(2,249)	(301)	–	–
Comprehensive income	**11,769**	89,318	84,262	138,007	138,181
Balance Sheet as at March 31					
Asset-backed securities	**3,274,974**	–	–	–	–
Loans, net of allowance for credit losses	**12,525,521**	10,452,173	9,481,449	8,622,646	8,129,880
Subordinate financing loans and investments	**193,203**	155,070	156,158	148,290	143,901
Venture capital investments	**362,270**	441,631	475,985	505,118	431,379
Total assets	**17,679,927**	12,090,911	11,423,566	10,804,081	10,311,423
Total liabilities	**14,036,911**	9,901,347	9,556,249	8,996,363	8,620,146
Total shareholder's equity	**3,643,016**	2,189,564	1,867,317	1,807,718	1,691,277

* Fiscal 2009 results have been restated due to expense reclassification from financing to securitization.

GLOSSARY

ACCEPTANCE

The point at which the client has accepted the authorized financing terms and conditions that BDC has offered him or her. Client acceptance follows BDC authorization. (Information on acceptances disclosed in this report is net of cancellations or reductions, after client acceptance.)

ALLOWANCE FOR CREDIT LOSSES

Represents an amount that management deems adequate to fully provide for impairment in the existing loan portfolio. Allowance for credit losses can be specific or general, and is recorded on the balance sheet as a deduction from loans.

ASSET-BACKED SECURITIES

Securities created through the securitization of a pool of assets. For example, BDC's securitization contains Canadian AAA-rated term securities backed by loans and leases on vehicles and equipment, as well as dealer floorplan loans.

AUTHORIZATION

The point at which BDC has completed its due diligence and approved the client's request for financing. Authorization precedes the client's acceptance of the offered loan. (Information on authorizations disclosed in this report is net of cancellations or reductions, after BDC approval.)

CHANGE IN UNREALIZED APPRECIATION AND DEPRECIATION OF INVESTMENTS

Amount included in income resulting from movements in the fair value of investments for the period.

CONSULTING REVENUE

Fees from services provided by BDC's national network of consultants to assess, plan and implement results-driven, cost-effective management solutions.

CROSS-CURRENCY SWAPS

Agreements to exchange payments in different currencies over pre-determined periods of time.

DEBT-TO-EQUITY RATIO

A measure to ensure BDC operates within its statutory limitations on debts, calculated as the aggregate of borrowings and contingent liabilities over the total shareholder's equity. It excludes accumulated other comprehensive income or loss. The statutory limit of BDC's debt-to-equity ratio is 12:1.

DERIVATIVE FINANCIAL INSTRUMENTS

Contracts whose value is "derived" from movements in interest or foreign exchange rates, or equity or commodity prices. Use of derivatives allows for the transfer, modification or reduction of current or expected risks from changes in rates and prices.

DIRECT INVESTMENTS

Investments BDC makes directly in investee companies.

EFFICIENCY RATIO

A measure of the efficiency with which BDC incurs expenses to generate income on its financing and subordinate financing operations. It is calculated as operating and administrative expenses, as a percentage of net interest and other income. Other income includes fee income and realized gains or losses on financial instruments from financing, and realized gains or losses on investments and other income from subordinate financing. A lower ratio indicates improved efficiency.

FAIR VALUE

The price that knowledgeable, willing parties—under no compulsion to act—would agree to in an arm's-length transaction. Fair value represents management's best estimate of the net worth of an investment at the balance sheet date and may not reflect the ultimate realizable value upon disposal of the investment.

GENERAL ALLOWANCE

Established by management to recognize credit losses in the existing performing loan portfolio that have occurred as at the balance sheet date but have not yet been specifically identified on an individual loan basis.

HEDGING

A risk management technique used to insulate financial results from market, interest rate or foreign currency exchange risk (exposure) arising from normal banking operations.

IMPAIRED LOANS

Loans where, in management's opinion, credit quality has deteriorated so much that there is no longer reasonable assurance that BDC can collect the full amount of principal and interest on time.

INTEREST RATE SWAPS

Agreements to exchange streams of interest payments—typically, one at a floating rate and the other at a fixed rate—over a specified period, based on notional principal amounts.

LOSS ON INITIAL RECOGNITION

Represents the difference between the fair value of a financial instrument and its cost at the time of purchase. Loss on initial recognition is recognized in net income at time of purchase and subsequently amortized through interest income over the life of the financial instrument using the effective interest rate method.

MASTER NETTING AGREEMENT

A standard bilateral contract that enables trading counterparties to agree to net collateral requirements and, in a close-out situation, settlement amounts related to underlying master trading contracts related to sales and purchases of financial instruments. The master netting agreement offsets positive balances of one transaction with negative balances of another.

NET INTEREST INCOME

The difference between interest revenues generated by interest-bearing portfolios, as well as cash equivalents and securities; and the cost of borrowings to fund these assets.

PERFORMING PORTFOLIO

Loans for which there is reasonable assurance that BDC can collect the principal and interest on time.

PROVISION FOR CREDIT LOSSES

A charge to income that represents an amount that management deems adequate to fully provide for impairment in the existing loan portfolios, given the composition of the loan portfolios, the probability of default on the loans, the economic environment and the allowance for credit losses already established.

REALIZED GAINS OR LOSSES ON FINANCIAL INSTRUMENTS

Amounts that are related to structured notes and their associated derivatives. Realized gains or losses occur when financial instruments are repurchased prior to maturity at a price higher or lower than the original purchase price.

REALIZED NET GAINS AND LOSSES ON INVESTMENTS

Gains realized, net of realized capital losses, upon sale or write-off of investments, excluding the change in unrealized appreciation or depreciation of venture capital and subordinate financing investments.

RETURN ON COMMON EQUITY (ROE)

Net income, less preferred share dividends, expressed as a percentage of average common equity. It excludes other comprehensive income or loss, and accumulated other comprehensive income or loss.

SPECIFIC ALLOWANCE

An allowance that management establishes to recognize credit losses in the existing loan portfolios that have occurred and are identified on an individual loan basis, as at the balance sheet date.

START-UP

A business that is being established for the first time. Also included in this category are existing enterprises that have not yet registered 12 consecutive months of sales.

SUBORDINATE FINANCING

A hybrid instrument that brings together some features of both debt financing and equity financing.

UNREALIZED GAINS OR LOSSES ON FINANCIAL INSTRUMENTS

Amounts that are related to structured notes and their associated derivatives. These represent the amount included in income resulting from movements in the fair value of financial instruments for the period.

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Iu130-2010E
978-1-100-16096-2

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